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27 November 1981

# CHINA REPORT ECONOMIC AFFAIRS

No. 184

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## NATIONAL POLICY AND ISSUES

### 'JINGJI GUANLI' ON TECHNICAL TRANSFORMATION

HK190357 Beijing JINGJI GUANLI [ECONOMIC MANAGEMENT] in Chinese No 10, 15 Oct 81  
p 3-6

[Article by Chen Yi [7115 2496]: "Overall Technical Transformation of the National Economy Must Be Carried Out."]

[Text] 1. The Readjustment of the National Economy Should Be Combined With Technical Transformation

During a period of economic readjustment, how to combine this readjustment with technical transformation is a question that should be seriously studied. At present our country's industrial situation is that while light industrial products and textiles are unable to meet demand, heavy industry, particularly the machine-building industry, is operating below capacity. To increase the light and textile industries' productive power by closing, suspending or amalgamating factories or switching them to other production is only a temporary measure and is not the best method. Such amalgamation and switching can neither greatly increase the productive power of the light and textile industries, nor can it help to accelerate the socialization and modernization of production. The current situation is one of "tearing down the eastern wall in order to repair the western wall." In actual fact, neither of these "walls" is newly built, as both have been in a state of disrepair for a good many years. Furthermore, this approach also raises two other questions: First, when most of the heavy industry is operating below capacity, how is the national economy to maintain a steady rate of growth; secondly, how should this temporarily-idle productive power be employed, readjusted, strengthened and improved? In the final analysis, implementation of the four modernizations must ultimately depend on heavy industry, and on the machine-building industry in particular.

For these reasons we should view readjustment as a positive measure and not as a case of taking down the eastern wall in order to repair the western wall. By combining readjustment with technical transformation, the whole of the national economy can be revitalized.

It was said recently by a leading comrade that, "in the past the emphasis was placed on new construction and external growth; now the emphasis is placed on technical transformation and internal improvement. This is a strategic change in our policy for construction. The need to make full use of our present material and technical base and to carry out an overall technical transformation of the national economy is an important task which influences the whole economic situation and one which

now clearly faces all parts of the industrial sector, especially the machine-building industry." During the period of readjustment the use of the whole country's machine-building power to carry out a gradual technical transformation will allow us to kill two birds with one stone: as the level of the entire national economy is gradually raised and such a transformation is carried out throughout the economy, the machine-building industry itself will also be transformed. The phenomenon of lopsided development will then disappear.

2. If the Four Modernizations Are To Be Implemented, an Overall Technical Transformation of the National Economy Must Be Carried out in a Planned Manner

After more than 30 years of construction, our country has already established a complete industrial base. However, as far as the needs of the four modernizations are concerned, this is clearly not sufficient. If the year 2000 is assumed to be the target date for the initial implementation of the four modernizations, this means we still have 19 years left to go; or if one calculates from 1985, with the completion of readjustment, there are 15 years left; either way the period of time is not short. Both West Germany and Japan managed in the space of about 15 years to rebuild themselves into powerful industrial nations from the ruins of war. Furthermore, compared with them, our base is stronger, and conditions are slightly better. However, two other factors should also be taken into account: First, compared with China, Germany and Japan are relatively small countries with small populations. They also had some experience on industrial production, their people had a certain degree of education and, more important, both countries enjoyed American support. Our situation is thus very different from theirs. Secondly, the distance separating us from the advanced nations of the world is too great; this is true for all sections of the national economy. Examples of this can be drawn from agriculture as well as heavy and light industry: 5 percent of the American population live on the land and provide enough food for 200 million people, with per-capita grain consumption being around 3,000 jin. In our country, on the other hand, 80 percent of the population live on the land, which means that a force of 300 million strong farm laborers must support a total population of 1 billion, and the per capita grain consumption is only around 600 jin. With over 12 million workers our country's light and textile industries make up the largest part of the industrial sector. However, the people's level of consumption is still very low compared to other countries. Taking 1978 as an example, the average per-capita number of cotton goods produced in the developed nations was 3-4 times greater than it was in our country. As for chemical fibers and plastic products, the developed nation's per-capita rate of production was 21 times higher than it was in China. For synthetic detergents the foreign rate of production was 14 times higher and for sugar and paper it was 13 times higher. The productivity of our country's workforce is also less than it is abroad. For example in America the spinning of a piece of 20-count yarn requires only 1.5 man days, while in our country it takes 6.5 man days. Our country's steel industry has as many workers as the combined workforce of the American, Russian, Japanese and West German steel industries. However, the actual level of production is less than 10 percent of the combined production in these 4 countries. Our country's coal industry employs over 3.8 million workers, which is about the same as the total number employed in the important coal-producing nations; however, our coal industry accounts for only 20 percent of total world production. While over 80 percent of foreign coalmines have been fully mechanized, only 28 percent of our major mines have such equipment. Our country's power generator installed capacity is only 10 percent

that of America's and 50 percent of Japan's. In terms of workers and the number of machine tools, our country's machine-building industry is the second largest in the world; the value of output, though, is 1/9 of America's and 1/4 to 1/3 of West Germany's and Japan's. Labor productivity in the machine-building industry is about 1/12 to 1/10 of that in America, West Germany and Japan. As for the machine-building industry's production of export products, America, West Germany and Japan produce 150 to 200 times more than our country does; France and Britain produce 100 times more; and even several small East Asian nations produce 5 to 7 times more. Our machine-building industry's utilization rate of steel is only 65 percent, while in advanced foreign countries it is up to 80 percent. The floating capital turnover in our machine-building industry takes about 221 days, while in America it is 70 days and in Japan 76.

For these reasons it can be seen that while our country has a certain industrial and technical base, the actual productive power is extremely low. At present the critical question is how to use our present base and promote its improvement and development. There exist two possible solutions: the first is to make a determined effort to liberate productive force by reforming any irrational relations of production which may now exist. Generally speaking, if improvements are made in this area there should be no problem in increasing productive force by 1/3 to 1/2. The alternative solution is to basically use our present technical and economic base as the starting-point for a full-scale technical transformation of our national economy, that is, of our current productive power. This will mean the renewal of critical equipment, the upgrading of backward technology, the reorganization of irrational productive units and the use of modern managerial techniques and methods to strengthen the administration and management of enterprises. It can be said that aside from these two alternatives, there is no other shortcut.

### 3. The Regular and Sustained Introduction of Technical Improvements Into Industry Is a Common Way of Developing Productive Forces

An overall survey of Western nations' industrial development shows that while the construction of new factories is a continual process, most new factories are built during the initial period of industrial development. In later periods, the introduction of technical change in old factories is a more common way of achieving a higher level of performance. In the last 10 or so years in particular, the rapid development of science and technology, combined with the intensification of competition, has resulted in a constant striving for lower prices which, in turn, has benefited both technological and economic development. There are several common methods of achieving this: The use of the existing economic base combined with a strengthening of scientific and technological research; the renewal and replacement of outdated equipment; the adoption of advanced techniques; and the improvement of administration and management. Such efforts to develop production and maintain forward momentum by carrying out continual and sustained transformation of existing industry is what we mean by placing the emphasis on technical transformation and internal improvement rather than on new construction and external growth. Why is it that many foreign countries have proceeded in this manner? First, such improvement is not only cheaper and faster than new construction; it can also allow for a more effective use of the existing base; second, because improvement is continuous and technology accumulates easily; third, because such improvement is meant to meet relatively short-term needs, one can keep a clear view of the situation;

feasibility studies should be relatively simple and it should also be easier to manage the economy in a rational manner; fourth, even though there may be mistakes in the plans for improvement, errors can be corrected easily and actual losses should be small. In short, this scientific economic approach derives solely from the realities of the situation.

There are many factual examples: for the past few years the number of machine tools in the advanced industrial nations has not increased greatly, and in some cases has even decreased; production, however, has still continually increased. For example, in America before 1960 there existed a steady proportional relationship between the growth in the number of machine tools and the increase in production. After that date production increased at a rate of 20 percent every 5 years. In 1978, however, the number of machine tools had declined by 14 percent compared with 1973. At the same time, however, the number of numerically-controlled machine tools and processing centers doubled; production lines increased by 20 percent and overall production during this period went up 20 percent. In Japan the situation was very similar. Between 1967 and 1973 the number of machine tools increased by a little over 20 percent, while the actual output value quadrupled. This shows that the forces and level of production do not depend on a numerical increase in equipment and enterprises but rather on qualitative improvement. Comrades who return home after studying this problem abroad all say that in the industrially developed nations it is not at all uncommon for old factories to be producing goods which can still compete on the international market. On one occasion a general engineer visited a steel-rolling mill in a Western country; the manager pointed to a steel-rolling machine and said, this machine dates from the 1950's but it is still more efficient than new machines because of continuous technical improvement. He also expressed deep regret over the fact that our factories are only used and never improved. In Japanese industrial circles it is often said that, "the process by which an enterprise continually develops and prospers is a process of continual technical improvement." Although Japan's social system is different from our own, this statement holds true for our country as well, and deserves serious thought.

For the past 10 or more years capital construction has been the centre of efforts to increase productive forces. For a number of reasons, the problem of duplicate construction is a very serious one, and the utilization rate of equipment is very low, which results in a wastage of manpower, materials, financial resources and time. In the heavy industrial sector, our country has more heavy machine plants than any other country in the world; furthermore, many of these plants rank among the world's largest. However, there are also many factories which even after many years in operation have still not reached full capacity. Take the case of our country's hydraulic presses for example: While we have more such presses than Japan, Western nations' orders for forgings of several hundred tons or more are always placed with Japanese factories. What is more, we are often unable to produce forging of over 10 tons for ourselves, and many of our hydraulic presses lie idle. If a general survey were carried out of the whole country's economic results, people would be shocked by the number of examples of such waste.

Once a capital construction project has been put into operation, why is not it possible to quickly bring the productive forces into full play? The most basic reason for this is that while we have a system of capital construction we have no system for the transformation of production techniques. There are numerous financial

channels designed to assist capital construction projects; however, when it comes to the funding of technical improvements, not a single channel exists. Therefore a newly-built factory is expected to be a sort of "money tree" which only has to be shaken to produce and needs neither pruning, weeding, watering, or fertilizing. The result of this is that its effectiveness decreases daily and it gradually withers away. The classic example of this was during the 1960's, when we imported a complete factory to produce hydraulic equipment from Japan. The factory was in every way the same as factories of the same class in Japan at that time. After 10 years, however, the factories in Japan had increased their output 6 times and were already producing the 3d generation of their product. In our country, on the other hand, things were still the same as they were 10 years before, and in some areas production had even deteriorated.

The introduction of technical improvement into our existing economic base not only increases productive forces at a faster rate; it is also cheaper and relatively profitable. Under the present circumstances, it is very common for people to think that because capital construction demands large amounts of money, it should be included in our economic plan; technical improvement, on the other hand, is merely a question of accounting and cannot be included in the general plan. Such an approach is entirely mistaken.

The implementation of overall technical transformation of our national economy is, of course, a very large project. An optimistic estimate would be that it will be difficult to complete the task in less than 10 to 15 years. For this reason it must be carried out in stages. We must first of all gain experience by transforming those enterprises that produce products very important to the development of the national economy. Such transformation must be based on a scientific foundation and should also accord with economic and technical reality. The results of such a transformation should be the development of our country's productive capacity, the raising of the technological level, the increasing of the economy's efficiency and the creation of greater accumulation for the state. Products of which there is a domestic shortage should certainly be considered as targets for technical improvement. We will need to reduce imports and increase exports and also to increase the quality of domestically increased products. For example, the supply of products such as bicycles and sewing machines is unable to meet demand. We should investigate whether or not it is possible to use the whole country's machine-building capacity to carry out technical improvement in these factories (for decades most of our nation's industrial investment has been used to increase our productive capacity for primary products, and very little investment has been used to increase our productive capacity for secondary products. As a result there are many light industrial factories where not only is the equipment antiquated and techniques backward, but even the working environment is substandard. Technical transformation should certainly be carried out in such factories.) In addition to technical improvement we should also implement the system of socialist cooperation and division of labor. The organization of several large groups each producing from 5 to 10 million bicycles would strengthen the development of each smaller unit. As for reducing imports and increasing exports, the reform of several factories will not only increase foreign exchange revenue but will simultaneously reduce foreign exchange expenditure. According to statistics, during the last 3 years we have imported more than 4 million tons of steel plate at a cost of \$2.2 billion. Naturally, such imports cannot be continued for a long period of time, and we should make a

determined effort to use a portion of this expenditure to carry out improvements in one of our steel-rolling mills. Such an approach would certainly benefit the state. The conservation of energy is another area where money can be saved. Our country has many inefficient boilers; but if we were to spend money on reconditioning them we would be able to save 1 ton of coal for every 60 yuan invested. If, on the other hand, we wanted to increase the production capacity of coal by 1 ton, it would require an investment of around 200 yuan. A comparison of these two cases clearly demonstrates how worthwhile technical improvement is. There are many other such examples. In sum, it can be said that no matter whether we look at technical improvement from a macroeconomic point of view, from a long-term point of view or from the point of view of the cause-and-effect relationship that exists between the economy and financial revenue, we can feel equally confident. Some leading comrades now insist that we should study the way in which money is made, accumulated and used. In a society there exist numerous sources of funds; financial allocation is not necessarily the only way of finding the funds necessary for technical improvements; economic methods can also be used and may even yield better results.

#### 4. The Role of the Machine-Building Industry in the Technical Transformation of the National Economy

A leading comrade once said that, "the machine-building industry is the national economy's equipment section." It was said in the past that, "the machine-building industry is the heart of industrialization" No matter which phrase we choose to use, both emphasise the crucial role to be played by the machine-building industry in the technical transformation of the national economy.

There are, at present, two incorrect views of the machine-building industry. One of these views underestimates both its capacity and level, and seems to suggest that since nothing is any good we should even start importing products which we have been producing domestically for decades. In actual fact, in our existing technical and economic base over 80 percent of the equipment was domestically produced. Why is it that such things were good enough in the past but now simply won't do?! Certainly, domestically-produced equipment has certain shortcomings compared with equipment produced in the advanced industrial nations: it does not form complete sets, its reliability and durability are sometimes deficient, and the service is often poor. Some of these problems are scientific and technical, others are managerial, while others are problems of materials. All of these problems must be carefully solved. However, there exists another more important problem, which is that the state must have a policy that protects and supports its own industry. If this is not the case it is impossible to talk of self-reliance; and the loss of self-reliance would certainly influence the progress of the four modernizations.

The other view is that the machine-building industry is too big. Therefore, as soon as any mention is made of readjusting this industry, the problem is always seen in terms of drastic cuts, closures, suspensions, amalgamations and conversions. Such a view pays too much attention to quantity and not enough to quality. There are also people who say, quite correctly, that our machine-building industry is too bloated. With about 3.8 million machine tools, our country ranks second in the world in terms of the number of machines. However, if this is analyzed a little more closely it can be seen that of these machine tools over 100,000 date from before the revolution; another 100,000 were imported during the 1950's; another

800,000 are machines that were produced before "the great leap forward;" and during the great leap forward itself about 1 million machine tools were produced. Of the products dating from the "great leap forward" and the "cultural revolution," many were manufactured in a shoddy and slipshod way and their quality is often below standard; as a result many such machines, lying idle in factories, have become a real burden. There are probably only about 900,000 relatively standard machine tools divided among 170,000 different factories. Some 100,000 of these machines are run by people's communes, and the remainder belong to more than 1,500 small and medium enterprises. It is thought that key enterprises account for only about 600 of these enterprises. This means that there are probably no more than about 1,000 enterprises that will be able to play a positive role in the future.

About half of these 900,000 standard machine tools have already exceeded their service life. In one machine-building complex, most of the equipment is already more than 20 years old; in another one 70 percent of the equipment is more than 20 years old; there is even one enterprise in which 80 percent of the machine tools are over 25 years old. Abroad, the depreciation period for equipment is usually about 5 to 10 years; in our country it is 30 years. For these reasons our machine tools need constant repair; some have been overhauled up to 10 times. It should be pointed out that after a machine tool has been overhauled it is only possible to restore 96 percent of its original precision; after a second overhaul another 6 percent is lost; after a third time another 15 percent is lost, and by the time a machine tool has been overhauled for a fourth time, only 60 percent of its original precision rating remains. In actual fact, once a piece of equipment has been overhauled three times, not only does its level of precision decline, but the amount of money spent on repairs begins to exceed its original net value. The fact that our country's equipment has such a long depreciation period means, in reality, that there exists no system for the renewal of equipment, and much of our equipment is already old and inefficient. If, as well as being unable to produce precision products, we continue to use this substandard equipment to produce generation after generation of equipment, the standard will certainly get lower and lower. Low productivity, high cost and low utilization rate of materials also all flow from this same problem. For this reason the machine-building industry itself also has a serious problem with technical improvement.

Should we first transform the machine-building industry, and only when this is accomplished, set about reforming other sectors; or should we adopt a proportional approach and try to improve each industry a little? Neither of these methods seems to be particularly appropriate, for the following reasons: First, the existing productive capacity of the machine-building industry needs to be brought into full play; secondly, there needs to be a demand for machine products; thirdly, most of the capital needed to carry out technical improvement in the machine-building industry should come from that industry itself. Therefore, the introduction of technical improvement into this industry must depend on the technical transformation of other industries; that is to say, the machine-building industry should serve other industries in a practical and realistic manner. Through the process of helping other sectors to carry out changes, the machine-building industry itself will also naturally achieve a degree of technical improvement. This is not a before-and-after relationship, but a relationship of dialectical development. In Japan the machine-building industry was at the centre of their development plan. First of all, 10 or so products were chosen as targets for technical improvement; the object

of this was to increase exports and reduce imports with a view to improving the foreign exchange balance. Our objectives are not entirely the same; and our economic relations are also different. The machine-building industry will act as both the equipment section and the technical reform section for the overall technical transformation of the national economy. For this reason, only when we have taken the transformation of the whole national economy as our starting-point can we then decide the order and process of transformation in the machine-building industry.

#### 5. Several Questions That Should Be Answered Before Technical Transformation Is Carried Out

(1) The technical transformation of the national economy is an extremely complicated and painstaking task; it will require a unified plan, constant reappraisal and scientific verification. The leadership and command system which carried out Japan's machine-building industry restoration was more unitary block than our country's. Each of our country's industrial sectors has its own sphere of control, and the scope of our national economy's technical transformation is far wider than it was in Japan; for these reasons the task is much more difficult than it was in Japan. Without strong and powerful organization and leadership and without a unified plan, nothing can be accomplished. The formulation of a realistic and feasible plan for technical transformation will require the participation of a great number of experts. Problems such as what should be improved and what should be improved first should be subjected to repeated scientific analysis.

(2) The overall technical transformation of the national economy is a major strategic decision. As with the construction of 156 major projects in the first 5-year plan, no effort should be spared. Moreover, compared with the period of the first 5-year plan, we have many more methods today. If the state wants to meet some of the problems involved in technical transformation by introducing various items of legislation, such measures must first be passed by the permanent organs of the NPC, which have absolute authority, and only then will legislation be legally binding. In this way a unified understanding can be reached and affairs can be managed according to law.

(3) The phrase "technical transformation" should be understood in a broad sense. It refers to both the improvement of material conditions and also the readjustment and reform of organization and management. Because of this, when we carry out technical transformation it will be necessary, on the one hand, to reform any irrational parts of the superstructure and, on the other hand, to break away from the limitations of the different forms of ownership. The implementation of this plan and the carrying out of reorganization should be relatively centralized. Otherwise, we will end up expending a lot of effort for small results because none of the different channels link up; and this opportunity for reform could end by merely exacerbating the phenomenon of a divided system with numerous large and small independent units.

(4) The state should have a policy of supporting those enterprises in which technical transformation is being carried out. Depending on the particular circumstances of each enterprise, the government should make special provisions for loans and taxation.

In short, this is a major undertaking that requires full cooperation in all areas, as well as joint study and investigation.

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## NATIONAL POLICY AND ISSUES

### 'JINGJI GUANLI' ON DEVELOPING COLLECTIVE COMMERCE

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pp 44-45

[Article by Zhang Qipan [1728 0366 3140] and Li Xiuyi [2621 0208 5030] of the Ministry of Commerce: "Collectively-owned Commerce Should Be Greatly Developed"]

[Text] Since the 3d plenary session of the 11th CCP Central Committee, in the implementing the policy of readjusting, restructuring, reorganization and upgrading of the national economy, readjustment and reform have also been implemented in the realm of circulation of commerce and have progressed in the direction of more types of economic elements, more management forms, more circulation channels and fewer intermediate links. This has made possible the rapid recovery and development of collectively-owned commerce and the catering and service trades, and has thus played an active role in enlivening the market and bringing about a prosperous economy. The ups and downs of our collectively-owned commerce and the catering and service trades over the past 30 years have shown that their existence and development are in conformity with the economic conditions of our country, that they are essential, and that in reality they form an important constituent part of socialist commerce. To weaken collective commerce is to weaken socialist commerce. In fact we have endured much suffering in this connection and have learned a very painful lesson therefrom. It awakens us all the more to see that the current flourishing growth of collective commerce and the catering and service trades is an important step to the strengthening and improvement of socialist commerce and is the natural result of the development of the socialist economy. At the same time, it makes us clearly understand that following the readjustment of the national economy, the development of production the increase in commercial circulation channels, and the demand for improved social services, collective commerce and the catering and service trades still need to be greatly developed.

#### I. Experience and Lessons Gained From the Growth and Decline of Collective Commerce

In the early period of the founding of the PRC, collective commerce in our country was only in one single form and that was the supply and marketing cooperatives. During the transitional period, in restructuring agriculture, the handicraft trade and capitalist industry and commerce, we began to gradually organize the small merchants and small pedlars scattered throughout the country into cooperative stores and cooperative units. As a result, this gave birth to another type of collective commerce. By 1956, following the basic completion of the socialist restructuring of the private ownership system of the means of production in the great majority of

areas in the country, collective commerce in the form of cooperative stores and cooperative units had already reached a certain degree of development. In 1957, the size of the staff of the cooperative stores and cooperative units in the country was about 3.59 million people, comprising 46.1 percent of the total number of people engaged in socialist commerce at that time. In addition, some 950,000 small merchants and pedlars remained in the independently-operated individually-owned commerce. In 1958, under the influence of "leftist" guiding ideology, these stores and units were reorganized under the pretext of "promoting" them or putting them through the stage of "transition," and collective commerce which had only started to grow, took a sharp downturn and suffered a serious setback. By 1960, there were only 980,000 people working in cooperative stores and cooperative units. Moreover, with the network of state-operated commerce steadily merging small units into big units, the size of the collective commercial network swiftly dwindled to 72 percent of what it had been before within 2 or 3 years. In 1961, the policy of "readjusting, consolidating, filling out and raising standards" was adopted with regard to the national economy. Many of the stores or units which had been "promoted" or were "in transition" were able to recover their original status successively. However, due to the adoption of various inadequate policies, the cooperative stores and cooperative units, though staging a certain comeback, were still not able to regain their 1957 level. In the course of the 10 years of turmoil, collective commerce in the form of cooperative stores and cooperative units was looked at as a "capitalist tail." They were subjected to the policies of "transition" and "replacement." In some localities, the stores were forcibly closed and the people inside were driven away. What remained of the cooperative stores and cooperative units were converted into state-operated units, while their reserves which they had accumulated over a prolonged period of time and their public welfare funds were taken away. They lost completely their special features of independent accounting, responsibility for their own profits and losses, and lively operations. During this period, the collectively-owned supply and marketing cooperatives were also incorporated into and placed under the system of ownership by the whole people. Since then, commerce under the system of ownership by the whole people has ruled the country and basically speaking the situation has become one wherein there is a single circulation channel and business is run by one single unit. By 1978, compared with 1957, while the retail sales volume of commodities of the society increased by 220 percent, the number of points in the commercial network dropped by 52 percent and the size of the working staff increased by 11 percent.

What kind of problems and influence these ups and downs in the course of the development of collective commerce have exerted on the realm of commercial circulation and what experience and lessons are to be learned therefrom must be earnestly summarized. Only by clearly understanding these problems can we further eradicate the influence of "leftist" thought. And only in this way can we, in our future work, actively support the development of collective commerce, correctly display and utilize the functions of collective commerce, enliven the circulation of commodities, greatly improve the social services, promote production development, make life easy for the masses and fully meet social needs.

Looking at the two stages of setbacks for collective commerce, namely, one from 1958 to 1960 and the other from 1966 to 1976, the problems that directly presented themselves were the large decrease in the number of commercial network units or points, the oversimplification of the social services, and the inability to meet

the demands for production development, for improvement of the people's standard of living, and for strengthening the channels of circulation. In turn, this has bred a series of problems among which the principal ones are: (1) The daily life of the people has met with many "difficulties"--difficulties in shopping, eating, clothing and repairs and maintenance. These difficulties not only remained unsolved for a long time but were even greatly aggravated due to the steady increase in the population of society. (2) To a certain extent, weakening of the servicing capacity of circulation invariably results in lengthening of the circulation process. This constitutes an immense social waste. It is indeed frightening to imagine the losses occasioned in the time element by the masses having to queue up for purchases on account of the decrease in the number of service units of the commercial network. According to an investigation made in Beijing, each year 700 million hours of valuable time are lost by people in the city due to their having to walk a long distance and to stand in line when doing their shopping. This has not taken into account yet the fact that wholesalers have to stockpile their goods on account of the small number of retail stores, nor of the adverse effects that such a state of affairs may engender. (3) Collective commerce and the catering and service trades can very well provide employment for a large number of people and thus help to solve the employment problem of the society. Restricting the development of collective commerce would block the road to employment as a result of which, on the one hand, there would be jobs with nobody to fill them and the needs of the society could not be met while, on the other hand, there would be many people with nothing to do and the unemployed unable to find jobs on time. (4) If the constituents of the commercial economy are basically confined to only one type of commerce, namely, that under the system of ownership by the whole people and the mode of operation is uniformly fixed at doing 8 hours of work a day, then the situation would be highly depressing and stereotyped and the people's livelihood needs can hardly be met. All the above illustrates one point, namely, that commerce under the system of ownership by the whole people cannot manage the entire burden of promoting production development, making life easy for the people and enlivening the circulation of commodities. In particular, it cannot take up the task of adequately attending to the multifarious and complex needs of the people's livelihood. It must have some complementary and supporting force such as collectively-owned and individually-owned commerce.

## 2. Development of Collective Commerce Reflects Social Needs

In the course of reforming the circulation structure calling for the existence of diversified forms of economic components, diversified operational forms, numerous circulation channels and a small number of intermediate links, the various types of collective commerce and individual commerce have claimed the most rapid development and produced the best results. In less than 2 years between 1979 and 1980, the number of points in the collective commerce network reached 763,000 units, occupying 37.7 percent of the total number of points in the whole social commercial network. This sector employed 3.33 million people comprising 36 percent of the total number of people serving the society's commerce. At the same time, there were 686,000 points in the individual commerce network, occupying 33.9 percent of the total number of points in the whole commercial network of the society. In all, 897,000 people were employed, making up 9.7 percent of the total number of people serving social commerce. The number of collective commerce network points in the urban areas in 1980 increased by 69 percent over 1978 while the number of points

in the individual commerce network increased by over 3,000 percent for the same years. The rapid development of collective commerce and individual commerce reflects the needs of the society and is well received by the populace.

This development in collective commerce and individual commerce brings about thoroughgoing changes in the realm of circulation. First of all, it breaks down the unitary type of operation and the single circulation channel of commerce under the system of ownership by the whole people. It forms a social commercial structure of multiple economic components, and adds strength to the domain of circulation. In particular, it displays its important role in many sectors of commodity circulation which commerce under the system of ownership by the whole people cannot reach. In this way, the longstanding contradictions resulting from the serious insufficiency in the number of commercial network points are relieved to a rather large extent. At the end of 1980, there were 2.369 million units in the social commercial network, an increase of 1.03 million over 1978, or an increase of 76.9 percent. At the same time, the door of employment was opened wide and jobs were found for several million people awaiting employment. This not only helped strengthen social service work but was also beneficial to stability and unity. Moreover, collective commerce and individual commerce have the special features of independent accounting, responsibility for one's own profits and losses, ability to start business early and close later, ability to do business along alleys or at street corners, dexterity in operation, being convenient for the populace and enlivening the market. They are able to fill in the gaps, extend their business hours, increase their service items and, in short, meet social needs by means of taking various service forms. The longstanding problems of difficulties met with in shopping, eating, clothing and in general repairs and maintenance work are being gradually solved. They are complementary to commerce under the system of ownership by the whole people but are also its competitors. The special features of their operation have served to promote changes in the operational methods of commerce under the system of ownership by the whole people, overcome the bad demeanor of "officials running business," improve management and control and enhance the quality of service.

This active role of collective commerce and individual commerce fully illustrates that their existence and development are in conformity with the national condition of our country, suit social needs and possess enormous vitality. This indeed is the basic reason why for a prolonged period of time, and despite the many ups and downs, they have been found to be indestructible and irreplaceable. Our country is big, and has an enormous population but a weak foundation. The development of social service enterprises cannot depend entirely on investments from the state. The employment of social labor power cannot be entirely made by enterprises under the system of ownership by the whole people. Only when state-operated and civilian-operated enterprises are combined together can we achieve greater, faster, better and more economical results. In collective commerce the units are small and are diversified. The investments required are small and faster results are achieved. In comparison with commerce under the system of ownership by the whole people, considerable savings in investment can be effected. According to an investigation made in Shanghai, in the catering trade, the average amount of fixed assets (not including the dining rooms) required per individual employee was 625 yuan in state-operated establishments but only 85 yuan in establishments under collective ownership. In the state-operated service trades, the average amount of fixed assets required per individual employee was 827 yuan whereas it was only 146 yuan in service

trades under the system of collective ownership. On this basis, if the number of people additionally employed over the last 2 years in collective commerce and individual commerce were employed by enterprises of state-operated commerce, the state would have required additional investments amounting to 2 to 3 billion yuan. Hence, concurrently with the development of state-operated commerce, the principal direction hereafter for addition to the points in the commercial network and providing people with employment should be the development of collective commerce.

### 3. Consolidating and Developing Collective Commerce Is a Long-Term Policy

Collective commerce as an important constituent of socialist commerce will coexist for a long time with commerce under the system of ownership by the whole people. The present development of collective commerce is by no means a temporary measure but is instead a long-term policy. Departments of state-operated commerce should learn well how to correctly utilize this important force of collective commerce so as to better fulfill the tasks in the realm of circulation. They should give help and support to collective commerce on various sides, absorb their experiences and improve their own management. The viewpoint and practice of discriminating against collective commerce are the influences of "leftist" ideology and must be thoroughly eradicated. Staff members of collective commerce should rest assured, strive to learn business techniques, develop and grasp the ability to run enterprises, correctly carry out the policies of the state, do a good job of running enterprises, and make more and greater contributions to serving the people. It would be entirely erroneous to consider collective commerce as unreliable, and to believe that collective commerce is inferior to state-operated commerce where everyone "eats out of a big pot" and has an "iron rice bowl." This is because state-operated commerce just the same has to go through reform in order to solve the problems of "eating out of a big pot" and having an "iron rice bowl." Only in getting a full understanding of all these matters can collective commerce attain consolidation and development.

At present, collective commerce still faces a number of problems in its development. Besides such considerations as the political rights of staff and workers, their social status, their enlistment in the armed forces, their schooling or going to college and computation of working age all of which the state has already made definite provisions for, the problems still requiring solution are: (1) respecting the decisionmaking power of collective enterprises and assurance of the principle of more work more pay in distribution. In enterprises which have done well, the staff should receive a higher income than that in state-operated enterprises and the staff of state-operated enterprises should not be jealous and nor should the departments in control attempt to place such limitations as levying extra taxes or making special appropriations. (2) Collective commerce must have the assurance that it can operate normally. In the supply of goods or raw materials and in the pricing of commodities it must be treated the same as the same type of state-operated retail stores and must not be discriminated against. (3) The governing principle should be that whoever starts the business should be in control. The control of collective commerce should be strengthened. The internal administration system of the enterprises should be gradually perfected. Reserves and welfare funds should be set up. Income receipts should not be completely distributed or consumed. The development of the enterprise and a group welfare scheme for the staff must depend on the accumulations of the enterprises themselves. Without accumulations the

enterprises will not have a firm foundation. (4) The relevant departments in control should treat collective commerce in the same light as state-operated commerce. They must be put under unified planning and their geographical distribution must be rational. They must be made to develop in a planned manner and according to the needs of the social structure. The setting up of network points for collective commerce should follow the principle of whoever runs the unit should do the building work and the departments concerned should provide the necessary support. If according to needs a municipal government engages in building up station points, it should assign to collective commerce a portion of the points on a compensatory basis. In general, we must start from a long-term view and formulate a definite policy for the protection of collective commerce to the end that it can continually be consolidated and improved and progress in a healthy manner.

It must be pointed out that in the last 2 years, following the development of collective commerce, the commercial network of the social structure has grown considerably in size and notable results have been achieved. But viewed from the standpoint of social needs, a great disparity still exists. In 1957, on a yearly average basis each point or unit in the retail sales network served some 331 people. In 1980 the number of peoples so served increased to 672. Quite obviously, the problem of the insufficient number of service points in the commercial network is a pressing one. Hence, in addition to the development of commerce under the system of ownership by the whole people, collectively-owned commerce must also greatly develop.

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## NATIONAL POLICY AND ISSUES

### 'JINGJI YANJIU' CITES SPEECHES AT SEPTEMBER MEETING

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[Summaries of speeches delivered by Sun Yefang [1327 0396 2455], Chen Hansheng [7115 5060 4563], Chen Daisun [7115 1486 1327], Yan Zhongping [0917 0022 1637], and Luo Gengmo [7482 5087 3351] at the first annual meeting of the Chinese Federation of Economics Groups]

[Text] Editor's Note: The first annual meeting of the Chinese Federation Economics Groups was held in Dalian from the 3-6 September. Over 300 people attended the meeting, including representatives from various economic societies, federations and research institutes, and representatives of news agencies. This meeting was the first large-scale meeting of the economics circles since the founding of the republic. At the meeting, Comrade Yu Guangyuan, adviser to the Federation of Economics Groups, delivered a speech entitled "Develop the Science of Economics and Better Serve Socialist Modernization." Advisers to the federation, Comrade Sun Yefang, Chen Hansheng, Chen Daisun, Yan Zhongping and Luo Gengmo also spoke at the meeting. In this issue, we are publishing the text of Comrade Yu Guangyuan's speech in full and summaries of the speeches by Comrade Sun Yefang and the others. (The titles of the summaries of the speeches, outside of that by Comrade Sun Yefang, were made by our editorial department. [End Editor's note])

On the Problem of Linking Together Theory and Reality and Letting a Hundred Schools Contend -- Sun Yefang

I shall talk on two problems. One is the linking together of the theory and reality and the other is the promotion of academic discussion, that is, the problem of letting a hundred schools contend.

The purpose of our forming the federation of economics groups is to promote the development of the science of economics. But this is only an organizational measure and is the promotion of this work from only one aspect. In order to upgrade the science of economics, we must do two things well. First, all people in economics circles, and naturally this includes myself, must seriously and penetratingly study the original theses of Marxism-Leninism, particularly "Das Kapital" by Marx. During the period of the "cultural revolution," "Das Kapital" was slandered as having the "function of a horse's tail." Lin Biao said: "Das Kapital" could only explain the problem of capitalism but not that of socialism. This was nonsense! "Das

Kapital" not only explains clearly the laws governing a capitalist society but also explains the basic laws governing a socialist society. We must read "Das Kapital" repeatedly and study it repeatedly. Why should we overthrow the capitalist system and set up a socialist system in its place? In constructing a socialist economy, what kind of principles must we follow? In "Das Kapital" Marx supplies us with the answers in principle. Hence, we should not only urge the younger generation to repeatedly read "Das Kapital" but also encourage our older comrades to do so as well. In recent years, people have accused our economists of writing articles or developing theories which contain confused concepts and divergent views. Generally speaking, academic thinking and concepts always grow from divergent to unity. Hence, there is nothing strange in the confusion of the concepts or in the divergence of views. However, we must gradually unify our thinking and concepts and should not allow them to remain confused or divergent. How then should this unity be brought about? The answer is that they should be unified on the basis of Marxism and on the basis of the "Das Kapital," the basic work on Marxist economics.

Naturally, we cannot copy or apply mechanically Marx's writings, including "Das Kapital." Marx and Engels not only did not see socialism in practice, but also did not see some of the new things in today's capitalist economy. But we should still follow the basic principles of Marxist economics to explain these new phenomena and these new problems. We oppose the doctrinairism of copying or applying mechanically and we also oppose pragmatism or empiricism which take and accepts things as they are and is the opposite of the basic theory of Marxism.

The zigzag road which we have traversed over the past 32 years in our research work on economic theory and our actual financial and economic work was not due to our use of any of the tenets in "Das Kapital," but rather due to our violation of many basic principles long ago pointed out therein. Even the many defects in the economic control system which we introduced in the 1950's were not due to our violation of the basic principles therein. For this reason, we Marxist economists should well propagandize "Das Kapital." As for the many new things not touched upon in "Das Kapital," we must also follow the basic theories of "Das Kapital" to seek further elucidation. At present, certain comrades are interested in many new concepts and new ideas introduced from the West. In this regard I am not a conservative. I feel that in Western economics there are many useful things which we should absorb, particularly economic metrology, departmental economics, enterprise management and so on, all of which we can learn from. The West has had many good experiences in the field of economic management and control. However, in regard to political economics, Marxist political economics is radically different from the capitalist political economics of the West. We cannot readily borrow its concepts and terms. At the present, there is already a random use of certain terms and categories of Western economics. But what is the criterion to determine which concept should be introduced and which not? In my opinion, we should use Marxist classical theses as the criterion, and in the case of economics, particularly "Das Kapital." Hence, I believe that to promote the development of the science of economics, we must advocate the study of the classical works of Marxism, particularly "Das Kapital."

At the same time, if we wish to raise the standard of economics and promote the development of the science of economics, we must pursue investigation and research. Actually, this is long-standing policy. Our articles (including mine) are full of

empty talk and have little content. One of the reasons is that we lack a realistic approach, are not in touch with the pulse of the economy, and are inclined toward abstract problems. Therefore, I hope that the academic societies of the Federation of Economics Groups will not only advocate but also organize and plan some worthwhile topics for investigation and research, go deep into the countryside, factories and stores, make friends with the peasants, workers, storekeepers, particularly comrades doing financial and accounting work, or planning or statistical work, observe and learn from life, and thus do some model type of investigative work. At the same time, we should do investigation and research in collaboration with the planning and statistical departments which deal with problems comprehensively. That articles by our economists are devoid of content and substance may be ascribed to the lack of statistical materials. Economists in general have no access to comprehensive statistical materials. I fervently hope that the statistical bureau can satisfy the wishes of the economics circles.

Linking theory with reality, study in Marx's works and doing a little investigation and research--these were what Comrade Mao Zedong advocated during the first and second civil wars. He reiterated this again in the early 1940's during the rectification and education campaign when he voiced his opposition to Wang Ming's doctrinairism. Even now the works written during the rectification campaign can well serve as a motto for us in our theoretical research work. However, the "resolution" adopted at the 6th plenary session of the 11th CCP Central Committee pointed out that what led to Comrade Mao Zedong's errors in his later years was his losing contact with reality, cutting himself off from the masses, and the growing seriousness of his subjectivism and his air of despotism. In other words, during his last years he failed to carry out investigation and research on reality. Therefore, although linking theory with reality and doing investigation and research are long-standing policies, they still should be carried out and forever be new topics of discussion. Let us hope that this will always be remembered by those of use doing theoretical research work and those doing practical work.

The second problem I wish to touch upon is the promotion of academic discussion and the enlivening of the atmosphere of the economics circles. Academic discussion in economics is tantamount to the economics circles doing criticism and self-criticism work. "Letting a hundred schools contend" has been advocated for a number of years, but it has not been well developed. There have been few cases of our economics circles of consulting and discussing problems and even though were a few cases, little can really be said about them. Academic discussion should be criticism and self-criticism as well as criticism and counter-criticism, or judgment and counter-judgment. This is the normal phenomenon for academic discussion. Unfortunately, for many years we have not acted in this way. Indeed, if one was named in an article as being opposed to the views of somebody else, that was something extraordinary. As far as I know, in this regard the historical circles are much more open-minded than our economics circles. Nevertheless, their discussions still centered more on historical events. There have been little criticism and discussion by name on real historical viewpoints. In my opinion, academic discussion, also known as academic judgment or academic criticism, is nothing unusual but if you are unwilling to sign your name, others reluctant to carry on a discussion with you. If both sides are willing to sign their names in articles criticizing the other's views, then truly the economics circles will be enlivened. We should not be afraid of being criticized by name if our viewpoints are correct, but if the

viewpoints cannot pass the acid test, the sooner other people criticize you by name, the greater indeed will be the help rendered to you.

#### Economics Science Should Be Studied for the Purpose of Application--Chen Hansheng

Studying for the purpose of application is an important problem. It is hoped that the Federation of Economics Groups will take this into consideration.

In the past, it was frequently found that we were unable to put to use what we had learned, and when the time came for application, we found that we had not learned enough. I have been thinking: Could it be that we had not learned enough and therefore were unable to cope with the application work? Or could it be that after learning we had no way to apply it? I feel that if we want to put to use our learning, then we have to rely on the government's political power and, when there is political power, we study for the purpose of application. The application of economic knowledge depends on practice and this has a close relation to the political regime at the time. The Kuomintang under the leadership of Sun Yat-sen was unable to implement his economic principles because at that time the political power was not in the hands of the Kuomintang but in the hands of the warlords, bureaucrats and landlords. At present, the situation in certain countries in Latin America and Africa is the same as that in our country before the liberation when our national capital had not been fully developed and the warlords were in power. If in the future, members of the Federation of Economics Groups can write a book on the economic history of contemporary China, then it will be a valuable reference material to many of the developing countries.

In regard to the problem of studying for the purpose of application, I feel that to implement the economic policies there must be rational organization structures, touching on various phases. After 1956, our party was lacking in democratic spirit, political life was abnormal and frequently the words of one individual were final. For example, at the time when cooperatives should have continued to be organized, suddenly there was the decision to organize people's communes. Originally, the policy called for developing agriculture first, light industry second and heavy industry third, but subsequently emphasis was laid on heavy industry while agriculture and light industry were relatively ignored. As a result, this brought about a series of bad effects. At present, our cadre system has one defect. That is, it concentrates only on personal affairs and not on business affairs, while those in charge of business affairs have no power over personnel. Those in charge of business affairs wish to do their work well and must have suitable personnel, but frequently they cannot get the kind of personnel they require and have to accept those assigned to them regardless of their suitability. The results are that the organizational structures have become ponderous. They have more hands than needed and their work efficiency is low. Under such conditions, although we have learned economic management methods we cannot find or put them to use. Naturally, before any improvement has been made in organizational structures, comrades in our Federation of Economics Groups should still help the cadres who lack in economic knowledge to find people versed in economics to help them to better implement our party policies.

Comrades doing research in economics should not confine themselves, in the course of their work, to reference materials only but should organize actual investigative work. Our research should be based on the analysis of materials derived from actual

investigation. I am in favor of Comrade Sun Yanfang's suggestion of doing actual investigation. Because the formulation of our party policies should be based on reality, that is, derived from the people and eventually implemented among the people. Only in this way will the policies conform with the interests of the people. I hope that comrades of the Federation of Economics Groups will organize some investigative projects so that in the implementation of the 8-character policy, they will be able to offer constructive views. This is really studying for the purpose of application.

#### Linking Theory With Reality and the Development of Economics Science--Chen Diasun

It is indeed my good fortune to be able to take part in this first annual meeting of the Federation of Economics Groups. I am very happy to be here. This is the first grand meeting of the economics circles for more than 30 years. While extending my felicitations to the gathering, I wish to express the hope that this meeting will be instrumental in the promotion of economic theory being closely linked with reality and in guiding reality. Teaching is my profession. I have much contact with comrades of the younger generation. Young comrades think in a lively way. This is good. However, in their thinking, certain problems do arise. For example, some comrades believe that Western economic theories have been continuously progressing and can solve the various problem confronting the capitalist economy. To them "Das Kapital" does not seem to have such a capability. Does this not mean that "Das Kapital" is out of date? Indeed, we cannot blame the youngsters for these kinds of doubts. As teachers, we should blame ourselves for not having done our work well. We did not, or could not, guide the students to learn how to link economic theories with reality and, to go a step further, how to employ correct theories in leading reality. From time immemorial, economic theories, or economics itself, may be said to be a kind of knowledge for use in application and not merely theories on paper. The problems it is meant to solve come from reality. After probing and studying, theories are formed and they in turn guide reality. The two Chinese characters for economics "jingji," were originally imported. The Japanese used these character to represent the so-called modern economics introduced from the West, and we borrowed them from the Japanese. Nevertheless, the origins of this terminology can be traced to our country. Formerly in China there was a phrase, "jing shi ji ming," ["tending the universe and helping the people"]. The term jingji is an abbreviated version of this phrase. Naturally, this former phrase encompassed a much broader scope than the scope of what we now call economics, since it was related to the various phases of the rule of the state or society. However, what we understand today as economics is one of the important phases. At any rate, when in earlier times the phrases "jing shi ji ming" or "wen zhang jingji" ["the theory of economics"] were used, any reference to jingji or economics carried the implication that it was linked with reality and was knowledge that was to be applied. Judging from the historical development of Western economics, there was not any stage of development in which economic theory was not linked with reality. From the classical economists in vogue in Western nations today, their objective was the solution of actual problems. In particular, Marxist political economics was an outstanding example of theory linked with reality and guiding reality. Yet, despite years of stressing the linking together of theory and reality, we have habitually forgotten about it. As a result, our economics has become mere armchair strategy and some young comrades cannot put theory to use in solving problems. Some people feel that Marxist political economics is useless. They urge borrowing from Western economics, believing that some of the theories therein might be well worth our copying. As a matter of

fact, Western economics has certain points worthy of being drawn upon for reference. But contemporary Western economists always boast that their economics is based on reality and is not related to the problem of social value. Such a claim is erroneous and not in conformity with reality. This is because the economics of the capitalist class has the logical premise of protecting the capitalist system and the problems it endeavors to solve grow out of the capitalist system. The theories formed for the purpose of solving these problems are merely to serve this system. We had closed our doors for several decades. Now that the doors are opened, certain people are bewildered by new situations and believes that all things from the outside are good. Naturally, abandoning the closed-door policy is a great change. Our responsibility is to channel this change in the right direction.

The Federation of Economics Groups is a comprehensive organization. If it can join together the various departments engaged in economics science, it will greatly help to strengthen the link between theory and reality. We hope that the Federation will make contributions in this effect.

#### Study of Economic Theory Must Be Strengthened--Yan Zhongping

In my youth, I studied economics of the capitalist class and had no training in the study of history. In 1953, my organizational unit assigned me to write on economic history. Since economic history entails the science of economics and the science of history, it requires especially extensive training and understanding of Marxism. Since I had neither, I thought I could obtain some knowledge from my senior comrades, but unfortunately then and for over the past 20 years and more, I have been able only to find few writings in this aspect. So, I have been at a loss.

It must be acknowledged that since the founding of the republic, our senior comrades have gained much successful experience in their research on China's contemporary economic history. But of the 4,000-odd published articles on China's contemporary history, more than 2,000 were on the history of the Taiping heavenly kingdom, and many were on the peasants' uprisings and on general political history. Certainly all these historical events should be studied. But, basically speaking, was it not because of the difference or inequality in the economic status of the various classes that led to the outbreak of the various class struggles? Should we not pay attention to the history of the economic status of the classes in our research on this history of class struggle? However, while some people spent much time researching whether or not Hong Xiuquan had a moustache, the research on the problem of the economic status of the peasants during Hong Xiuquan's era receive relatively speaking, a cold reception.

Our country has placed the branch of learning of economic history within the department of the science of economics. Institutions of higher learning have established courses on economic history under the study field of political economics, while scientific research departments have set up economic history research offices or units in their economic research organs. The situation at present is: institutes or departments on the special study of political economics are currently offering courses on the economic history of contemporary China. Few have offered courses on the economic history of ancient China and even fewer have offered courses on economic history of foreign countries. At the same time, students in the special departments of political economics concentrate on studying economic theories and

problems and, generally, pay little attention to economic history. Could this also be true in so far as economic history is concerned with students in departments of special studies of history in the institutions of higher learning? Scientific research departments have placed economic history within their scientific research organs while few research organs on the science of history do not have their own economic history special research offices or units, but the research on economic history in economic research organs is more or less in the same situation as the course study of economic history is in higher institutions of learning.

This situation is like that of the tradition story that when there are only two monks in a monastery they usually had no water to drink because both of them refused to carry water. Since the economic foundation determines the condition of the upper layers of a structure, this uneven stress laid by historians on the economic foundation and on the upper layers of the structure is an error in strategy. Marx said that he knew of only one science and that was the science of history. Hence, the research on the history of economic development should provide the basic tool for all research on economic theories and economic problems. If a little more historical or quantitative sense is inserted in economic publications, they will no doubt have an even greater influence.

#### Several Hopes Concerning the Work of the Federation of Economics Group--Luo Gengmo

Only half a year has passed since the establishment in April this year of the Chinese Federation of Economics Groups. It has now 226 group members. If on the average each group has 300 to 400 individual members, then the federation is a big organization in the economics circles with a total membership of 70,000 to 100,000. This is an organization with great possibilities. Naturally, only through the smashing of the gang of four and the implementation of the correct ideological line of the 3d plenary session of the 11th CCP Central Committee are we able to meet together here today and are elated and full of vigor.

I wish to talk about some minor problems. They are: the federation's constituent group members have only been active in the last 3 years. Besides this, they can be characterized with two words, "lax" and "weak." What I mean here by being "lax" and "weak" is different from what newspapers and magazines have recently characterized the party's leadership as being "lax" and "weak." What I have in mind in using "lax" and "weak" is these are a temporary phenomena characterizing the federation's constituent group members in the early stage of its formation.

The federation is an academic organization of a public or civilian nature of new China's economic circles. Its group members all belong to the same category. Before the 10 years of turmoil, organizations of similar nature also had existed. Their number was small and their activities were limited. Lin Biao and the gang of four, with the aim of destroying the new socialist culture and using the pretext of "overthrowing the academic authority of capitalism," cracked down on all of them and not a single organization survived. So what we have been advocating in recent years in promoting the public activities of economics academic organization and the establishment of the Federation of Economic Groups was tantamount to starting anew. Moreover, since the liberation, we have been accustomed only to the type of scientific research work that was mobilized administratively from the above, although some investigation and research work has been done at the initiative of the departments of finance, trade, industry and communications. While at the same time,

there were no scientific research activities being carried out by academic economics organizations and these organizations lacked the experience and foundation that could have been derived from these activities. The scientific research activities that were carried out in the past by economics groups mostly depended on three types of people--teachers and economic research workers, workers in economic departments and retired comrades who were still interested in economic research. These people voluntarily devoted some of their time to this work and were not solely engaged in this effort. As a result, in the next 2 or 3 years the scientific research activities of these economics groups will probably continue to be loosely organized. They will have to depend principally on the scientific organs in the various localities and their members sense of responsibility under the guidance of the party's ideological line. Concurrently, the Federation of Economic Groups will have to attend to the necessary liaison and promotion work and gradually pull together to form an integrated whole. For this reason, I suggest that between the Federation of Economics Groups and its constituent group members, between the economics groups of the academic departments of the various localities and between all of these groups and their individual members that there be cultivation of good social behavior befitting a socialist civilian academic organization. There should be mutual respect, mutual understanding, and mutual assistance. Bad practices such as sectarianism, arrogance and conceit must be avoided. We must quickly and closely bind together the ranks of the older, middle-age and young generations of the economics circles of the entire country to make the needed contributions to socialist modernization.

The problem of the "weakness" of the Federation of Economics Groups which I mentioned has reference to the following condition of the federation: the academic ranks which it has joined together are numerically rather strong in regard to both the constituent groups and their individual members. However, measured in terms of their ability to serve the four modernizations and the quality of the scientific research work, they are still relatively weak. This is particularly true at the present stage. We must be deeply aware of this point. Many reasons have contributed to this "weakness," of which I mention three. First, during the 10 years of turmoil, the damages done by Lin Biao and the gang of four not only completely destroyed the economics academic groups which were still in their "infancy" stage and wrought this kind or that kind of havoc onto the economic theory workers versed in Marxism, confining them for a prolonged period in cowsheds separated from the outside world, but also disrupted the higher education for a whole generation of people. At present, in the whole country the economics departments of institutions of higher learning and economics scientific research organizations are all facing the problem of a temporary shortage of personnel. In general, they lack an integrated academic staff for the training of research students aspiring for the master's or the doctor's degree. Capable teaching staff and scientific research workers who can connecting link between the past and the future are sadly lacking. This hardly befits a great nation with a population of 1 billion people. This is one of the effects of the 10 years of turmoil. Second, we may trace back to the 1950's and find a political setting different from that mentioned above. In the past, the courses offered in the economics departments of the institutions of high learning were few and narrow in scope, and due to the influence of the "leftist" line, they were confined to using textbooks from the Soviet Union written in the 1940's and 1950's (although we must admit that at that time, they might still served some useful and beneficial purposes). The evolution of modern economic thought of the West, particularly management methods and economic technology and know-how, was almost entirely

neglected in our research work and was not even introduced "with critical reservation" to the public. This of course greatly reduced the scope of our economic knowledge and level of development of our economics science. Somewhat related to this factor was the fact that our college students all had a rather low proficiency in foreign languages. The great majority of them were restricted to only one foreign language (Russian). Even at that, they could hardly pass the crucial test of using the language. Third, for a prolonged period the party's leadership cadres frequently paid no attention to cultivating and training a contingent of economic theoretical workers, or in any way supervising or supporting this type of work. For example, in the systematic and prolonged accumulation of economic materials so vital to economic theoretical work, economic teaching and research personnel (including medium-level and low-level cadres in economic departments) met with difficulties and obstacles which they cannot solve or remove. The leadership at higher levels were not aware of or failed to take note of such difficulties and consequently neglected to help solve problems. Up to now, the great majority of such workers have difficulty in obtaining economic statistical materials and other materials. This has brought about a situation which may be likened to the proverbial saying that the "cleverest housewife cannot cook a meal without rice." This is also one of the reasons for the slow upgrading of new China's standard of economics science. We hope that the leadership will show an all-round interest in the growth of a contingent of economic theoretical workers and help them to solve the problem of the supply of statistical and other materials and other problems relating to their working conditions.

Finally, let me express some views on the tasks of the Federation of Economics Groups in the next 3 years. In my opinion, in addition to doing well the work of popularizing the science of economics, the Federation of Economics Groups should arrange to promote and organize a contingent of specialists to compile publications on economic theories (embracing special-topic investigation and research reports) centering on the economic theoretical problems and practical problems related to the current readjustment and restructuring of the economy. The publications can be of the type that makes a hundred schools contend and encourage people to make even more exhaustive studies and pursue further scientific work. The federation may very well use this as a foundation to help members of groups in localities as well as the economics departments of institutions of higher learning to organize academic speech-making tours on a seasonal or rotational basis. This will help to supplement and upgrade the standard of teaching and of scientific research on the economics science. We should pay close attention to the analysis, research and appraisal of advance economic theories and economic model theories presently being introduced from the West and Eastern Europe. On the one hand, we must keep out any ossified and leftist thoughts, and on the other hand, we should take note of and see through the revised vulgar economic theories. We must not eulogize or propagate them as new "scientific development." This is very necessary at present.

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## NATIONAL POLICY AND ISSUES

### 'JINGJI YANJIU' ON ENTERPRISE PROFIT-SHARING

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[Article by Zhu Yen [2612 1484] and Cao Yifeng [2580 3015 1496] of the Institute of Economics of the Shanghai Academy of Social Sciences: "An Analysis of Profit-Sharing in Shanghai's Enterprises With Expanded Decisionmaking Power"]

[Text] The pilot projects on expanding enterprise decision-making power which started in our country in 1979 mainly involved expanding enterprise financial powers and replacing centralized control of income and expenditure by profit-sharing, while correspondingly demanding that enterprises assume certain economic responsibilities and that economic benefits be shared in accordance with the economic results of the enterprises' production and management, in order for the enterprises to increase labor productivity.

For the past 2 years, practice in the experimental enterprises with expanded decision-making power in Shanghai has shown that although this involved only partial expansion of enterprise powers, it has indeed started to mobilize the initiative in enterprise production and the workers' enthusiasm because it has grasped the key link of integrating enterprise economic benefits with their contributions. In particular, those industrial enterprises which were assigned production quotas short of their production capacity have been taking the initiative to open up new markets, improve management and expand production and sales. They have been able to increase production and income and achieve better economic results.

Both production level and economic results markedly improved in these enterprises compared with the period before the pilot projects were undertaken. Below are the comparative figures:

#### Over Industrial Output Growth Rate

Year	(Compared with previous year)	
	Shanghai	Pilot-project enterprises
1979	8.4 percent	12.7 percent
1980	6.1 percent	7.1 percent

Industrial Profit Growth Rate  
(compared with previous year)

Extent of Profit-Sharing

Shanghai	Pilot-Project Enterprises	Percentage of Total Profit
3.7 percent	15.5 percent	5.3
2.9 percent	7.0 percent	8.0

Average Bonus

Shanghai	Pilot-Project Enterprises
100 percent	136 percent
100 percent	152 percent

The above chart shows that the pilot-project enterprises were able to realize the principle of "increasing state income, enterprise profit-sharing and individual income"--that is, of simultaneously taking care of the interests of the state, the enterprise and the individual--on the basis of increased production and income. In handling the relationship among the three parties, individual income of workers and extent of enterprise profit-sharing were placed within reasonable limits and individual benefits received by workers were determined by the extent of benefits realized by the enterprise.

In 1979, total amount of profit-sharing in pilot-project industrial enterprises in Shanghai reached 473.86 million yuan. In 1980, with the increase in number of enterprises experimenting in expanding decisionmaking power, the amount of profit-sharing also rose to 767.30 million yuan. Of the total amount of profit-sharing in the 2 years, production development funds accounted for 45 percent, collective welfare funds 29 percent and worker incentive funds 26 percent.

With the above-mentioned funds, the pilot-project enterprises are able to depend on their own financial resources to undertake structural renovation of old enterprises and achieve the intensive type of production increase by tapping potentials, reforming and restructuring. The enterprises also have more funds to improve the workers' collective welfare facilities, particularly, to solve the workers' housing problem; and to raise the average amount of bonuses in pilot-project enterprises to 36 to 52 percent above the average for industrial workers in the municipality.

With the expansion of enterprise financial powers, there was also a corresponding increase in the economic responsibilities they assume. This resulted in gradual improvement in the level of enterprise operation and management and the strengthening of economic accounting work. Reforms have promoted the consolidation of enterprises. These have been the most important results of reform.

However, it can also be seen from the above chart that although the annual growth rate of profit in pilot-project enterprises is way above that in ordinary enterprises, the growth rate in 1980 was lower than in 1979. The same is also true with ordinary enterprises. According to the analysis of the municipal statistics bureau, this phenomenon was caused by several factors. One of them is the faulty method of enterprise profit-sharing. Let us proceed to discuss this question.

## I

When pilot projects in expanding enterprise decision-making power started in Shanghai in 1979, the method of having enterprises share both basic profit and appreciated profit was adopted. The total profit in pilot-project enterprises in 1978 was taken as the basic profit, with profit-sharing rate set accordingly, and once set, this figure was not to be changed for 3 years. Annual profits realized after the pilot project began, if larger than the basic profit, were considered appreciated profit. In 1980, pilot-project enterprises were still sharing profits according to the amount of basic and appreciated profits. However, the difference is that basic profit for each year is set according to the amount of profit realized in the previous year. Thus, basic profit changes every year.

In 1980, there was a great number of enterprises which undertook pilot projects in expanding decisionmaking powers. They adopted the method of cyclic ration. For fear that overly high profits during the current year would affect the increase of appreciated profit in 1981, in 1980, when increase in enterprise production and income reached a certain level, many enterprises turned their efforts to equipment inspection and repair, and few devoted efforts to further increasing production.

At that time, pilot projects in expanding enterprise decision-making power had the tendency of spreading to ordinary enterprises. Thus, this also affected those enterprises which had not undertaken the experiment. These enterprises feared that if their profit quotas for the current year were too well fulfilled, their basic profit level would be correspondingly raised and they would be in a position of "dis-advantage" when the time came for experimenting in expansion of enterprise powers. This was an important reason why total industrial output in Shanghai for the second half of 1980 was lower by 2.5 percent compared to the first half.

Of course, the enterprises' worries reflect certain contradictions existing between partial and overall interests. At the same time, they even more vividly reflect the shortcomings of the present method of enterprise profit-sharing. That is to say, the present method of enterprise profit-sharing fails to correctly embody the issue of proportional relationship between enterprise economic interests and the contributions they have made. Practice in the past 2 years revealed many problems, focusing on the issue of imbalance of profit-sharing rate among pilot-project enterprises, which in turn creates the contradiction of inequality in enterprise income and bonuses given to workers. Due to the gap between high and low profit-sharing rates, these rates failed to reflect the efforts exerted and contributions made by many enterprises. There were instances where advanced enterprises which have done basic work well, exerted great efforts and contributed much received only little economic benefits. This is the key problem.

## II

To realize profit sharing, we must shift from the method of including certain expenses and capital (including funds for new product development, scientific research and worker training) in appropriations from the higher levels or in operating capital to the method of including these items in that part of profit which is retained by the factories, in order to establish the link between the factories' economic benefits and their operational results and to strengthen their sense of economic responsibility.

According to regulations, the amount of profit-sharing in enterprises experimenting in expansion of enterprise powers in Shanghai is divided into two parts: basic profit-sharing and appreciated profit-sharing. The sum of the two is the economic benefits received by enterprises. Individual benefits received by workers are apportioned according to a certain ration from the amount of profit shared, and are determined by the amount and distribution ration of the profit shared. Can this method of profit-sharing properly reflect the efforts exerted by the pilot-project enterprises in their production and management and establish a corresponding link with the economic benefits they receive? Let us analyze this in detail.

Let us first analyze the components of the amount of enterprise profit-sharing.

Amount of Enterprise Profit-Sharing	Basic Profit-Sharing Rate Equals Profit X for Basic Profit	Appreciated Profit Plus Profit
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X Profit-Sharing Rate  
for Appreciated Profit

(Basic Profit-Sharing Rate Amount of Basic)  
(Profit X for Basic Profit Equals Profit-Sharing)

(Appreciated Profit-Sharing Rate Amount of Appreciated)  
(Profit X for Appreciated Profit Equals Profit-Sharing)

In the above formula, the basic profit is a known quantity. It is determined by the total profit realized by pilot-project enterprises during the previous year; that is, basic profit for enterprises joining the pilot projects in 1979 is determined by their total profit in 1978, while that for enterprises participating in 1980 is determined by their profit in 1979.

Appreciated profit represents the remainder when basic profit is subtracted from the annual profit of pilot-project enterprises. When basic profit is set at a high level, appreciated profit becomes correspondingly smaller; when basic profit is set at a low level, the same amount of profit results in a bigger appreciated profit.

The profit-sharing rate for basic profit is computed according to certain formulas and it differs from one pilot-project enterprise to another. The average profit-sharing rate for basic profit in the municipality of Shanghai in 1979 was 4.2 percent. Profit-sharing rate for appreciated profit is fixed. In pilot-project enterprises adopting the fixed ratio, it is set at 10 percent, and in those adopting the cyclic ration, it is set at 20 percent. The reason why profit-sharing rate for appreciated profit is much higher than that for basic profit is that this brings forth enthusiasm for increasing production and income. However, this also easily leads to the possibility of pilot-project enterprises taking legal measures to lower the amount of basic profit.

The total amount of profit-sharing in enterprises is made up of two components parts. Here, the profit-sharing rate which affects the amount of basic profit-sharing differs from factory to factory. This is an effort to use different basic profit-sharing rates to enable pilot-project industries starting with various amounts of profit during their initial period to arrive at relatively balanced amounts of basic profit retained. The formula for its computation is as follows:

The denominator is the total profit realized by the pilot-project enterprise during the year taken as base.

The numerator is, as mentioned above, those expenses and capital that should be appropriated from retained profit after an enterprise undertakes the pilot project. These are to be computed according to certain proportions which they account for the enterprise's overall appropriation for wages or in the total profit. They are roughly equivalent to the amount appropriated from higher levels or taken from capital expenditure or enterprise profit during the base year.

Profit-sharing rate for basic profit computed according to this formula differs according to the differences in total profit of enterprises during the base period and the differences in the amount of related expenses and capital expenditures of various enterprises. Basic profit-sharing rates computed according to this formula range from low to high, with some as low as 1.94 percent and others as high as 16.5 percent, although the great majority are below 10 percent.

The pilot-project enterprises can arrive at the amount of economic benefits they are entitled to during the base period by multiplying the amount of profit realized during the base period (basic profit) by the profit-sharing rate for basic profit. If the pilot-project enterprises want even greater economic benefits, they must increase production and income during the experimental period, and create appreciated profit, in order to enjoy appreciated profit-sharing.

At first glance, this method seems to be very fair. Moreover, this method of computation guarantees that the state's financial income will not be lower than the level during the base period.

However, on closer inspection, this method is premised on blanket affirmation of the actual conditions in various pilot-project enterprises during the base period, and these conditions include many abnormal and irrational elements. Thus, the fault of "uniformity" exists because the differences in the operational conditions in the various pilot-project enterprises during the base period were not taken into consideration. This computation method dictates that some enterprises' economic benefits are fated to have no connection with the contributions they could make, and that some pilot-project enterprises should suffer unjustified losses while others should enjoy undeserved additional benefits. This will not only dampen the enthusiasm of some pilot-project enterprises but will also weaken the positive role of the expansion of financial powers in promoting economic development.

### III

The profit of industrial enterprises is a comprehensive index which shows the level of production and management. How well it is realized is determined by the factory's type of production tasks, composition of product varieties, method of production organization, effectiveness in operations and sales and the lowering or increasing of production costs. Lastly, it is also determined by whether the pricing system for the products is rational or not.

To take a factory's production and management as example, whether production capacity is fully utilized and the level of production cost reduction decisively affect the profit level of the factory.

In the formula for computing basic profit-sharing rate, the denominator is the total profit. If the numerator remains constant, the bigger the denominator, the smaller the basic profit-sharing rate; the smaller the denominator, the bigger the profit-sharing rate. Thus, during the year taken as base, among factories with similar production conditions, those pilot-project enterprises with full-capacity production tasks or which have brought productive capacity into full play and those enterprises which achieved remarkable results in reducing production costs created large profits. In turn, the denominator in the formula was bigger and thus, the resulting profit-sharing rate was ironically smaller. If we analyze this in relation to historical conditions: Those pilot-project enterprises which, during the base year and the years immediately before that, increased production, reduced production costs, and turned over in progressively greater amounts of profit to the state every year were sure to have a very low basic profit-sharing rate. This rate was inversely proportional to the contributions made by these factories. On the other hand, those which during the base year did not have full-capacity production assignments or which did not make full use of their production capacity due to various reasons, and those pilot-project enterprises which raised production costs due to improper operations and management, certainly realized less profit than usual, and thus, their contribution to the state was small. However, when they joined the pilot project, their economic benefits were not reduced accordingly but on the contrary, their basic profit-sharing rate was high. The problem does not only lie here. With low level of basic profit, it was of course easy to realize a large appreciated profit during the experimental period and this correspondingly brings about undeserved "advantage" in terms of appreciated profit. The extent of this "advantage," in turn, is inversely proportional to the efforts these pilot-project factories exerted in their operations and management.

Many believe that the inequity in the economic rewards received by pilot-project enterprises is caused by the differences in appreciated profit-sharing. That is not true. Its root cause lies in the faults of the method of basic profit-sharing. With the progress of pilot project work, these faults have become more evident. They have become definite obstacles in extending the accomplishments of the pilot project. The "reservation" of the enterprises which are about to join the pilot project in increasing production and income is a silent protest directed against the faults of this profit-sharing method.

The numerator in that formula refers to: expenses for testing new products, operational expenses for scientific research establishments and workers' training costs, workers' welfare funds, bonuses for workers and enterprise reserve funds. The first two items are incidental to a certain extent. We will not discuss them. The last three items should be linked to the overall appropriation for wages in pilot-project enterprises during the base period, or should be computed according to certain percentages in the overall amount for wages according to regulations. The overall volume of wages is determined by the number of workers and average wages in various pilot-project enterprises during the base year. Those pilot-project factories which had many workers and high average wages had a great overall wage volume and welfare funds, bonuses and enterprise reserve funds computed according to set percentages were big in amount. Otherwise, the situation was the exact opposite. Following the formula, if the denominator remains constant, the bigger the numerator, the higher the resulting basic profit-sharing rate; the smaller the numerator, the lower the profit-sharing rate.

Take two pilot-project factories as example. If during the base period they realized the same amount of profits and their production conditions were the same or similar, then that factory with more workers and higher wages would have a higher basic profit-sharing rate than the other factory that had less workers and lower average wages. This is one aspect of the problem. On the other hand, whether during the base year, the questions of the number of workers in the pilot-project factories was reasonable--that is, whether it was compatible with the production scale of the factory--whether the work norm was of an advanced level and whether work hours were fully utilized were not analyzed and taken into consideration in computing the basic profit-sharing rate. Thus, inevitably, the result was: those factories with too many workers, which were oftenly idle and which wasted work hours during the base year received more benefits after they joined the pilot project than those factories which made fuller and better use of their work hours.

From the foregoing analysis, we can see: The fault of the method of computing basic profit-sharing rate lies in indiscriminate and blanket affirmation of the production conditions during the base year and in not conducting scientific analysis in accordance with the current situation of production and management in the factories. We did not start from the overall goal of promoting the production level in various enterprises and formulate a more rational method of computing profit-sharing rate. This is the root cause of the irrational nature of profit sharing among pilot-project factories.

#### IV

Let us now analyze some actual examples of pilot-project enterprises in Shanghai to serve as supporting evidence for the above points.

The Wujing Chemical Plant is a big enterprise. In 1978, there were many problems in its production: industrial accidents often led to power failure in the whole factory and there was serious waste of materials. Take for example the raw material sulphuric acid. Upon stocktaking, the waste of mineral ores alone amounted to 12,200 tons, raising per-ton raw material consumption by 74 kilograms. Thus, the profit quota for that year was not well fulfilled. The basic profit-sharing rate for that plant computed according to these conditions was as high as 16.5 percent. This overly high profit-sharing rate computed with an overly low profit as base brought this plant great advantages when it participated in the experiment on expanding enterprise powers. After the plant joined the pilot project in 1979, to deal with the problems in enterprise operations, it undertook reorganization in equipment, techniques, production safety and the plant's physical appearance. As a result, production order was rapidly restored to normal, the incidence of industrial accidents was reduced, while per unit consumption and production cost were also markedly reduced. The overall output value in 1979 was 25.7 percent more than that of 1978 and profit realized was 240 percent that of 1978. Because of low basic profit and high basic profit-sharing rate, that plant was able to have the best of both worlds. In 1979, that enterprise shared a total profit of 3.038 million yuan and each worker was able to receive an average of 335 yuan in bonuses, the highest among 76 pilot-project enterprises in the whole municipality. That plant has adopted a fixed ratio system and this ratio will not be changed in 3 years. In 1980, the profit realized showed a still more remarkable increase, amounting to 254 percent of that of 1978.

The heightening of the enthusiasm of the workers in the Wujing Chemical Plant after it joined the pilot project was the main reason why it was able to increase production and income in 2 consecutive years. However, part of the reason why the enterprise shared such a substantial amount of profit was obviously because of the unreasonable base figures. Logically, a part of the profit should have been handed in to the state, but because of the fault of the method of computing basic profit, it was retained by the plant. Similar situations and problems exist in some other pilot-project plants to various extents.

Another situation that explains overly low basic profit was that during the base period, the pilot-project enterprise was at the stage of testing new products.

Both the Shanghai No 3 and No 4 watch factories are pilot-project enterprises which joined the experiment in expanding enterprise powers in 1979. Both used 1978 profit as base and adopted the method of fixed ration profit-sharing, a ratio that does not change in 3 years once fixed.

The Shanghai No 3 Watch Factory has been producing the Haishi brand of men's watches and has thereby accumulated considerable experience in watchmaking. In 1978, it began to produce the S3-1 Shanghai-brand ladies' watch. During the experimental period, it concentrated efforts on checking techniques and solving problems concerning product quality. Thus, its production capacity was not fully utilized, while the cost of testing new products was high. Naturally, the base profit was low. This ironically became a favorable condition for increasing enterprise profit-sharing when the factory joined the pilot project.

The "Zuanshi-Brand" watch produced by the Shanghai No 4 Watch Factory is a high-quality and well-known product in Shanghai. It formally went into production in 1970. Over the years, the factory tried to tap potentials every year. By 1978, production output had grown 10-fold and profit had increased by 376 percent. After joining the experiment in expanding enterprise powers, because of high basic profit, its extent of increasing production and income was somehow restricted. The economic benefits received by this enterprise were paradoxically less than the No 3 watch factory.

Below is a comparative chart of the increase in production and income and extent of profit-sharing in the two watch factories after they joined the pilot project:

1978 (Base Period)

Name of Enterprise	Basic Profit (in 10,000 yuan)	Profit-Sharing Rate	
		Basic	Appreciated
Shanghai No 3 Watch Factory	373	8.07	10.00
Shanghai No 4 Watch Factory	2,065	3.92	10.00

Total Profit and Profit  
Shared (in 10,000 yuan)

1979		1980	
Profit	Profit Shared	Profit	Profit Shared
914	84.8	1,538	147.1
2,693	144.0	3,250	199.6

Total Labor Productivity		Average Bonus per Worker	
(Yuan)		(Withdrawn)	(Yuan)
1979	1980	1979	1980
28,579	35,142	220	359
51,996	56,893	180	271

Factory No 3 and Factory No 4 in the above chart are both old factories with rich experience in watchmaking. The "Zuanshi-Brand" is even a famous brand. Just because Factory No 3 test-produced ladies' watches in 1978 and that year was incidentally the "base period" when it joined the experiment on expanding enterprise powers, powers, its basic profit-sharing rate was more 200 percent that of Factory No 4, while its appreciated profit-sharing rate was the same as that of the latter. Thus, the following irrational situation came into existence: although the overall quality index of the No 4 Factory in the past 2 years was higher than that of Factory No 3 by 16.57 and 13.43 points respectively, and total labor productivity surpassed Factory No 3 in 2 consecutive years by 82 and 62 percent respectively, the ratio of profit shared to total enterprise profit, based on the chart, was 9.2 and 9.5 percent for Factory No 3 and only 5.3 and 6.1 percent for Factory No 4, while the average bonus withdrawn per worker in Factory No 4 was only 81 and 75 percent respectively that of Factory No 3.

It is usually believed that the inequity in benefits enjoyed after enterprises joined the pilot project is due to the difference in appreciated profit-sharing, because in designing the basic profit-sharing, the assurance that the economic benefits of the enterprises be maintained at the level of the base period had been taken into consideration. This is a superficial view. The problem precisely lies in the fact that inequality already began at the base level. Thus, once the pilot project started, the "good" or "bad" results in enterprise profit-sharing could already be predicted.

Another extreme case was setting the basic profit at zero. That means indiscriminately branding factories which lost money during the base period as money-losing units.

The "Feiyu-brand" of television set is a famous brand. It is produced by the Shanghai No 18 Radio Factory. In 1978, that factory was mainly producing 9-inch television sets and amplifiers. The 9-inch television set was a money-losing product while the amplifier was making a profit. Adding up profits and losses, the factory was making a read profit or more than 800,000 yuan. Yet counting the losses incurred by disposing with materials at a reduced price amounting to more than 2.3 million yuan, the factory, in the end, incurred a loss of 1.53 million yuan in 1978.

In 1979, the Shanghai No 18 Radio Factory participated in the pilot project to expand enterprise powers. Its profit-sharing ratio was set and could not be changed for 3 years. Due to the fact that in 1978, the balance sheet showed it to be a money-losing unit, its basic profit was set at zero and all the profit realized during the 3 years of the pilot project was to be considered "appreciated profit." According to regulations, those enterprises adopting the "fixed ratio" have a uniform appreciated profit-sharing rate of 10 percent (a very small number of pilot-project enterprises have a rate higher than 10 percent). This is higher by 138 percent, compared with the municipal average of 4.2 percent for basic profit-sharing rate. This "uniform" policy on appreciated profit-sharing rate has aggravated the situation of inequity in economic benefits among some pilot-project enterprises.

After the Shanghai No 18 Radio Factory joined the pilot project in 1979, its product composition was changed. The 9-inch television set was eliminated, while the output of the 12-inch television set which was making money reached 80 percent of overall production. Profit realized during this year was 11.08 million yuan, which was all regarded as appreciated profit, and profit shared was 1.08 million yuan. True, the expansion of enterprise decisionmaking power mobilized the factory's enthusiasm. Yet, part of the profit was undoubtedly brought about by the change in product composition. This should be considered a favorable objective factor. Pilot-project enterprises have different favorable objective factors which vary tremendously. For example: different modes of production; different organic composition of capital; changes in product composition; different proportion of net production value in overall production value, and different ratio between products for domestic and foreign trade. These factors all affect the degree of profit increase. In particular, the price factor (including prices of finished products, raw materials and associated materials) exercises wideranging influence because price seriously deviating from actual commodity value is a commonplace phenomenon. The existence of these influencing factors has made the objective measurement of enterprise subjective efforts even more difficult. However, in most cases, the appreciated profit-sharing rate is "uniformly set." This makes the pilot-project enterprises bear the burden of the good or bad economic results brought about by objective factors to enterprise profit. As a result, in the pilot-project enterprises' profit-sharing, some received benefits very easily and some suffered losses without justification, and this is also reflected in the workers' economic benefits.

In Shanghai, in order to solve the problem of "inequity of benefits" among pilot-project enterprises, methods of internal adjustment within various trades were adopted by the industrial bureaus and companies that were practicing profit-sharing in an entire trade. These had certain effects on alleviating the contradiction of "inequity of benefits" among enterprises, but they also had their limitations. This was because these methods did not try to solve the problem by tackling the root cause, while profit rate in various trades differs greatly. Therefore, it is difficult to solve the problem of "inequity of benefits."

## V

The main purpose in expanding enterprise decisionmaking power is to make the enterprises an internal economic force in enlivening the economy and improving production and management. To make the enterprises fully play their role as an internal economic force, the economic benefits they receive must be linked to the quality of their operation and management and with their contribution to the state.

We believe that in order to solve the problem of inequality in enterprise profit-sharing and to better implement the principle of simultaneously looking after the interests of the state, the enterprise and the worker, attention must be paid to the following questions:

1. At present, the phenomenon of industrial product prices deviating from actual value is very commonplace. This is an important objective factor outside the factories which affects the profit volume of enterprise and contributes to the inequality in profit-sharing. This problem exists between trades and between enterprises to various degrees. For example, the profit realized by each "Shanghai-brand" men's watch is as high as 37 yuan while the industrial profit per unit (1,000 boxes) for "Shengchan-brand" matches is only 1.42 yuan. There is a great gap between the two. This is the result of the state policy of centralized control of income and expenses in state-run enterprises, which was instituted during the 1950's after socialist transformation was basically completed. Obviously, this is incompatible with the requirements of the reform of the economic structure. We must undertake adjustment of prices in a planned and step-by-step manner. However, it takes a long time to institute a rational price system. Moreover, factors that influence prices, aside from the value base, include policy requirements, demand and supply relationship and so on. Thus, under certain conditions, it is inevitable for prices to deviate from value. Therefore, it is desirable to use the tax lever to supplement price policies and extract through taxes that part of enterprise profit which is created by objective favorable conditions.

2. Compared with the average enterprises in the country, most industrial enterprises in Shanghai have higher standards of operation and management and high profit level. It is obviously not always appropriate to adopt the "cycle ratio" method in enterprise profit-sharing. Perhaps, according to actual conditions in different types of enterprises, we can adopt different profit-sharing methods, such as fixed ratio, cyclic method, total profit retention, basic profit-sharing plus appreciated profit-sharing, sharing profit in excess of planned quota and assigning fixed profit quotas. In this manner, we can better mobilize the enthusiasm of the enterprises and the workers.

3. Whether the setting of basic profit is rational or not is a key question that bears on the inequality of economic benefits. Thus, we must not simplistically take the actual profit of the enterprise concerned during the base year as the base figure. We must compute the reasonable profit volume of the enterprise under normal production conditions and make this the base figure. We believe that the measures for the subjective efforts exerted by the enterprise are: the extent production capacity is utilized and the level of production cost. These are two decisive factors that bear on factory profit volume. Therefore, we must correctly determine a relatively rational way of quantifying these two major factors.

There are objective criteria for measuring whether the production capacity of a factory is being properly utilized. Generally, this means making a comprehensive analysis of how far the factory utilizes its designed capacity or its overall production capacity, whether it has attained the highest level in history and how well the production tasks have been fulfilled during the base year. Thus, we can arrive at a relatively reasonable basis for computation.

By relying on the above actual analysis of enterprise production capacity and production cost level, while referring to the actual profit level during the base year and deducting the objective favorable factors in the enterprises, we can surely set down a more rational basic profit volume. This is a solution to the shortcoming of "uniformity." Only thus can we enforce a more rational profit-sharing scheme, encourage the advanced units and stimulate the backward ones. Furthermore, we can also lay down the groundwork for future advance from profit-sharing to "independent accounting, state taxation and self-responsibility for profit and losses."

CSO: 4006/113

## FINANCE AND BANKING

### STRENGTHENING FINANCIAL MANAGEMENT OF PRODUCTION TEAMS URGED

Jinan DAZHONG RIBAO in Chinese 10 Sep 81 p 1

[Article by staff commentator: "Conscientiously Reorganize and Strengthen the Financial Management of Production Teams"]

[Text] Under the new situation of implementing the production responsibility system in agriculture, how to handle the financial management of the production teams has become an outstanding problem that the broad number of farmers are generally concerned about. The commune members said: "The responsibility system is the bamboo rake to bring in money; financial management is the cash box to hold money." This description is very expressive and very appropriate. Only by striving for more income and managing the income well can there be increased yields and increased income.

Of course, the financial management of the communes and brigades at present is still a weak link in business management. This is clearly manifested in the following: in some units, costs are not calculated in production, the costs are high and the results are poor. Management of property and materials is poor, loss and damage are serious. There are too many subsidies for banquets and giving gifts, wasteful eating and drinking and various inappropriate subsidies; the burden of the commune members is heavy. There is too much borrowing and misappropriation, there is too much improper retention of capital, there are too many debts unpaid, distributions that should be realized cannot be realized. The accounts are confused, there are no records of receipts and expenditures, finances are not made public, the economy is not democratic. Some units contracting work to the families do not close old accounts, do not establish new accounts, do not clarify debts, there is no record of fixed assets. A few units have even divided the property of the collective, eliminated the accountant, etc. If the confusion in financial management in the collective economy is not quickly reorganized, the results of labor by the commune members will be wasted, the socialist principle of distribution according to work cannot be truly implemented. Therefore, handling financial management well is a very important and urgent task facing us. The party and administrative leadership organs at each level in the farm villages must grasp financial management like they have grasped the production responsibility system, help the production teams carry out a conscientious reorganization and truly handle financial management well.

Reorganizing financial management first of all involves clarifying all accounts, thoroughly clarifying assets and materials, debts and various expenditures and revenues. The results of clarification should be publicized for the commune members,

and the masses of cadres should be mobilized to summarize the experience and lesson. The goal of clarifying the accounts is to bring problems to light, to understand the causes, eliminate shortcomings, accept the lessons, and improve the level of management. Clarifying the accounts is not launching a movement, it is not purging the cadres, it requires mobilizing the basic level cadres to take the initiative to do the work well and to boldly lead. The general financial problems that existed in the past should not continue after they have been understood and examined and corrected. Major individual cases of theft and embezzlement should be handed over to concerned departments for special handling, they should not be included in the reorganization of finances. Second, measures for improvement should be studied on the basis of clarifying the accounts, and a sound financial management system should be established. Regarding productive financial expenditures, those that can be contracted should be contracted as much as possible, those that require quotas for expenditure should be placed under quotas, the portion conserved should be kept, and overexpenditures should not be subsidized. Collective property and materials should be placed under a strict responsibility system: good management should be rewarded and poor management should be punished. Plans for retrieval and repayment of debts that cannot be cleared immediately should be clearly recorded in the books and contracts should be signed with the creditor for retrieving and repaying debts according to contract. Fixed assets must be redepreciated according to the actual situation and how new they are. They should be accounted for so that the real assets and the books are consistent, a depreciation system should be established and a responsibility system for the control, repair and use should be established. Analysis of economic activity must be carried out by the month or by the season to tabulate revenues and expenditures at fixed intervals; it should be posted for comparison with the same period last year and for comparison with similar units; the reasons for increases and reduction should be analyzed, the experience and lessons should be summarized, and measures to increase revenue and conserve expenditures should be studied.

Although collective revenue and expenditure items and accounts of units contracting production and work to the family have lessened in number, accounting personnel still have a lot of work to do. For example, helping the brigade committee establish production plans; signing contracts for production and work with each family; representing each family in uniform purchases and distribution of chemical fertilizers, farm chemicals, and superior seeds; collecting from each family the farm sideline products to be sold and closing the accounts; calculating and managing monetary subsidies for food grains for martyr families, "five protected families", families in difficulty and their special care; managing and using well the money from food grains kept by the collective; keeping good accounts so as to show the cash flow, posting the accounts for the masses and accepting supervision by the masses; and clarifying and managing well the original debts, transferring them to new accounts and supervising their retrieval and payment. As regards the original collective property, regardless of whether it still belongs to the collective or whether it is to be distributed to the families according to established prices, the accounts should all be managed according to the accounting system. The various forms of contracts and deeds, accounts, vouchers, bills and reports formed after collectivization and such financial files must be kept well. At the same time, the collective still must carry out some work benefiting the life and production of each family which the family does not have the ability to realize or which is not suitable for the family to implement. Accounting personnel must carry out or participate in

carrying out all these things; accounting work is still very important. The view that after contracting production and work to the families, accountants have nothing more to do and so can be eliminated is wrong.

Reorganizing financial management involves a broad area, the situation is complex, there are many problems and questions of policy are involved, so the county commune party committee and government must strengthen the leadership of this work. Responsible comrades must undertake the work and carry out profound actual investigation and study, discover problems in time and handle them well. Business departments must take the initiative to do the trial work well, to seek experience and to serve as good consultants to the leadership. Reorganizing finances is very detailed economic work, it is not something that can be done at one blow; we must strengthen the constant ideological and political work and the guidance in operation, combine the proper production responsibility system with yearend distribution, and carry out work according to plan and in stages and in groups.

Financial management work mainly relies upon the accountants for implementation. The caliber of the accountants determines to a very great extent the quality of financial management of the unit. Therefore, selecting good accountants, strengthening training, instituting periodic examination, and training a Red and expert accounting team constitute the basic construction in financial management. Only when the basic work has been done well can the active function of the accountant be truly developed to handle financial management well and to promote the more prosperous development of the collective economy.

9296

CSO: 4006/511

## MINERAL RESOURCES

### BRIEFS

JIANGSU RAW COAL PRODUCTION--In August, the whole province's production of raw coal was 1.33 million tons, a surplus of 65,000 tons, creating the highest monthly yield this year. The Xuzhou Mining Bureau conscientiously implemented the spirit of the national unified distribution of coal production conference, truly strengthened leadership and began implementing the economic responsibility system, thus mobilizing the enthusiasm of the broad number of workers. In August, it produced over 980,000 tons of raw coal, a surplus of 25,000 tons. Xuzhou, Huaiyinba, Yancheng, Yangzhou, Nantong Prefectures, the city of Lianyungang and the provincial Taihu Coal Company all overfulfilled their August production plans. [Text] [Nanjing XINHUA RIBAO in Chinese 3 Sep 81 p 1] 9296

CSO: 4006/511

## INDUSTRY

### THIRD MINISTRY OF MACHINE BUILDING INCREASES ASSISTANCE TO CIVILIAN INDUSTRIES

Beijing GUANGMING RIBAO in Chinese 7 Oct 81 p 1

[Article by Correspondent Tang Ding [2768 0002]: "Third Ministry of Machine Building Has Outstanding Results in Readjusting Its Service Orientation"]

[Text] Since the Third Plenary Session of the 11th Central Committee, certain enterprises and research and design organizations belonging to the Third Ministry of Machine Building have readjusted their service orientation, and while giving priority to completing military research and production tasks, they have organized their technical personnel to visit civilian products enterprises, gain an understanding of their technical difficulties and help them solve their problems; some of the enterprises have thrown open their doors and invited visits by representatives of civilian products enterprises or have taken the initiative in explaining and introducing new processes and technologies, as well as doing some preliminary work to spread new technologies, all of which has yielded outstanding results.

Their methods are as described below.

Adopting results from military work. For example, aircraft engines have been converted to ground-based gas turbines which are used as high-efficiency, light, easily controllable power installations which can use a variety of fuels; one variety of turboshaft engine and two varieties of turboprop engine have already been adapted as power units of this sort and are being used in the petroleum industry as electrical generators or water injection units. In addition, various aircraft electric motors, instruments and oil pumps are being converted for use in mines, light industry and textiles, chemical engineering, hoisting equipment and automation equipment.

Providing technical services to civilian products departments. Last year the Sanjiang Mechanical Engineering Works sent technical personnel on many fact-finding visits to the Wuliangye Liquor Plant, where they designed and produced a mechanized continuous bending machine, solving the difficulties which the plant, which produces Wuliangye, one of China's famous liquors, had encountered with bending processes, and increasing liquor production efficiency and bending quality. The Third Ministry of Machine Building's Power Research Institute sent about 30 engineers and assistant engineers to investigate domestic and foreign results and adopt advanced military technologies and equipment in developing this country's first complete automated bread production line, which produces an average of one loaf of bread (weighing 2 liang) per second. Some plants trial-produced certain advanced,

versatile mechanical equipment for the cigarette, textile, watchmaking and domestic electrical equipment industries. Some have also made computers and other experimental equipment available to the civilian products departments.

Production of certain civilian-use textiles. Many enterprises have set up production lines for civilian products, using idle buildings and equipment, and have produced domestic-use electromechanical equipment for civilian aircraft and other civilian needs, as well as producing key parts and components. Some plants have produced graphite rings for the chemical fibers industry and have furnished urgently-needed parts for imported equipment, saving foreign exchange for the nation; some have used a variety of stainless steel screening which won a national award to produce high-quality filter components and have developed new products for the chemical fibers, chemical engineering, metallurgy and petroleum sectors.

8480

CSO: 4006/37

## INDUSTRY

### ECONOMIC RESPONSIBILITY SYSTEMS IN ZHEJIANG INDUSTRIAL ENTERPRISES OUTLINED

Hangzhou ZHEJIANG RIBAO in Chinese 6, 7, 8 Sep 81

[Article: "What Types of Industrial Economic Responsibility Systems Has Our Province Instituted?"]

[6 Sep 81 p 2]

[Text] Editor's note: Recently this newspaper has received many letters from readers asking about the economic responsibility systems instituted by industrial enterprises. Accordingly, a reporter from this paper visited relevant departments in this province and obtained some information about these matters, which is presented below.

[Question] What, in essence, is the situation since our province began to implement the economic responsibility system on the industry and communications front?

[Answer] Since the Third Plenary Session of the Eleventh Central Committee, this province's industrial and communications front has begun investigations related to implementation of the economic responsibility system. In 1979, when the Central Committee applied the financial contract system involving "separating receipts and disbursements and assigning responsibility at various levels," the provincial party committee made a study and drew conclusions, and the province and the cities and counties implemented the approach of "eating in separate kitchens." Next, many cities and counties also implemented the work contract system for industrial bureaus, companies and enterprises. At the same time, the system of partial retention of profits was implemented in enterprises participating in the experiment with expanded autonomy, in accordance with State Council and province guidelines. Thus the economic responsibility system is being expanded gradually in this province's industrial and communications enterprises. According to statistics from the end of 1980, various types of economic responsibility systems have already been implemented in 771 industrial and communications enterprises owned by the whole people; most of these have also introduced various types of work contracts for shops, shifts and even individual workers.

Establishing the economic responsibility systems and making them work properly, and linking economic responsibility and economic powers closely to economic interests helps solve the industrial and communications enterprises' long-standing problems of stifling centralization, "eating from one big pot," and tendencies

toward egalitarianism, and are an important policy for improving economic performance and increasing financial revenues. Because the proportion of profit retained by the enterprise and the size of employee income is directly linked to the quality of production management and the magnitude of labor results, this strengthens the enterprises' internal economic incentive and creates the conditions for reorganizing enterprises, improving administration and management, and further stimulating the enterprises' and employees' enthusiasm.

The key problem in implementation of economic responsibility systems in the industrial and communications enterprises is that of correctly handling the relationship between the state, the enterprise and the employees. This manifests itself in two areas: the first is correct handling of the economic relationship between the enterprise and the state, and the second is correct handling of the distribution relationship within the enterprise.

[Question] What types of economic responsibility systems applying to the relationship between the enterprise and the state are in effect in this province? What are their merits and shortcomings?

[Answer] Currently six types of economic responsibility system applying to the relationship between the enterprise and the state are being used throughout this province.

1. Partial retention of base profit and partial retention of profit increment. There are two specific systems here. The first is the method established by the State Council in Document No 23 (1980). If the enterprise's profits for a given year are higher than those for the previous year, a predetermined proportion of the amount equal to last year's profit goes to the enterprise as the retained percentage of base profit, while a different proportion, also set by the state, of the increase in profit over the preceding year is assigned to the enterprise as the retained proportion of profit increment. If the enterprise's profit in a given year is lower than that for the previous year, the enterprise retains a percentage of the base profit, calculated in terms of the profit for the year and the established retention percentage. The proportion of base profit to be retained is set by considering the proportion of last year's profits accounted for by that year's expenditures on trial production of new products, scientific research expenditures and employee training expenditures, and the size of the employee benefits fund, the employee bonus fund and the enterprise fund. The percentage of incremental profit which is retained is set at 10, 20 or 30 percent, depending on the difficulty of making profits in different industries. The funds which the enterprise retains from profits are used for the production development fund, the employee benefits fund and the employee bonus fund. No expenditures required to be paid out of funds retained from profits may be covered through further allocations by the state, nor may the enterprise write them off as costs.

This method is a rather good embodiment of the state's, enterprise's and employees' interests. It encourages the enterprise to increase its output, improve quality and increase the amount of money paid to the higher levels. Its shortcomings are: first, that well-managed enterprises which earn high profits but have difficulty increasing them, i.e. primarily enterprises which have high technical and economic indicators, do not benefit much, so that we are "whipping the fastest

ox"; second, because of such factors as pricing policy, there is an unequal distribution of benefits and disadvantages among industries and among enterprises.

The other form of this system is the method specified by the province's Document No 128 (1979). After the state plan is completed, the former payment of 5 percent of total wages into the enterprise fund is replaced by a payment of 3 to 5 percent of plan profits to the enterprise as its retained proportion of profit, in addition to which, as a rule 20 percent of the profit increment is earmarked for the enterprise; employee benefits expenditures and employee bonuses are handled by the enterprise as described above.

The advantages of this approach are that it is rather simple and clear and is easy for the enterprise to calculate and implement. In particular, for a 2-year period enterprises need not pay to the higher levels any profit increases generated from their own assets, but instead may add them to their assets, an arrangement which the enterprises especially welcome. Some shortcomings are that the problem of "whipping the fastest ox" and unequal distribution of benefits and disadvantages still remain, and that the employee benefits fund and bonus fund are still tied to total wages.

Enterprises which are using the system of partial retention of base profit and partial retention of incremental profit must take care to act on the basis of the overall situation and must concentrate primarily on improving their management and achieving better economic results. According to relevant provisions of the State Council and the province, a small number of enterprises which, as a result of changes in objective conditions, are experiencing genuine difficulty in implementing the existing system of partial retention of profits, may make certain alterations in accordance with specific conditions. For example, a small number of enterprises which have inadequate production assignments and are experiencing sizeable decreases in profits must first reorganize and consolidate, revise their product structure and increase their output, and if these efforts are still insufficient to guarantee normal employee benefits fund levels and minimum bonus levels, the financial departments must make special allowances for them or carry out an audit in terms of the plan assignments that were handed down and implement the method of partial retention of above-plan profits. In the case of enterprises whose profits are especially affected by increases in state prices for raw and other materials or by decreased sale prices for their products, a suitable adjustment in the proportion of base profit retained may be made. In the case of some enterprises whose retained proportion of base profit established in accordance with State Council Document No 23 (1980) is too high, this proportion should be adjusted downward following suitable work on the case, and held within 40 percent.

Since these methods were implemented, they have acted as a positive factor in bringing enterprise enthusiasm into play, mobilizing employee enthusiasm, and stimulating enterprise and employee concern for output and a striving to increase profits, and have produced rather good economic effects. According to statistics for last year on 211 enterprises experimenting with expanded autonomy which have been circulated by the province, the total industrial output achieved in 1980 was 19.58 percent above that for the previous year and profits realized were up by 29.95 percent from the previous year, exceeding the increase in profits by the state-run enterprises throughout the province by 27.5 percent.

2. Implementation of the profit contract system and partial retention of excess profits in the case of small-profit enterprises. The profit indicators are generally based on the actual amount of profit paid to the higher levels in the previous year, with allowance for the actual circumstances in the present year. When the change in profit is rather large, these indicators are determined yearly, but when profits are rather stable, the percentage is fixed every 3 years. In some cases all above-plan profits go to the plant, while in other cases only a certain percentage is retained; in addition, some localities specify that if prescribed indicator values are not attained, the enterprise must pay a 5 percent penalty. For example, the Sheng County Zisha [4793 4263] Plant paid 60,000 yuan of profits to the higher levels in 1980, while this year its profits contract figure is 80,000 yuan; 10 percent of the profit in excess of the contract figure is paid to the cognizant department, and 90 percent is retained by the plant. As a result, the profit realized in the first half of this year has been 54,200 yuan, an increase of 126.8 percent over the same period last year.

3. A system in which enterprises operating at a loss receive fixed supplemental allocations, excess losses are not made up, and the amount by which losses are decreased is retained, either wholly or in part. In implementing this type of economic responsibility system, the various localities use the following method, depending on the size of enterprise losses, the difficulty of decreasing them or turning a profit, and the plant's specific situation: 1. "Bear half, receive half" of losses. In this case, the enterprise itself bears 50 percent of excessive losses and retains 50 percent of the amount by which losses are decreased. 2. "Bear all, receive all." In this case, excess losses are not made up by the state, and the amount by which losses are decreased is fully retained. 3. Determination of the percentage of losses to be subsidized in terms of product sales volume. This is a very effective method. Enterprises whose loss figure is contracted for show a profit rather quickly and shed their "money-losing" label. For example, the Lizhu Iron Mine in Shaoxing had shown a loss in every one of the 10-odd years since it was constructed. When this method was implemented, the situation showed a rapid change for the better. In the past, losses amounted to 10,000 yuan per day, while now the profit is over 50,000 yuan per day's production, and in the period from last April to this April alone, overall profits for the mine amounted to more than 2 million yuan. The province's 37 enterprises which operate at planned losses or whose losses are based on policy considerations showed a total loss figure of 2.268 million yuan in 1979; in 1980, after implementation of the contract system, they showed a profit of 2.117 million yuan. In the past these money-losing enterprises had no production expansion fund, and the plant was considerably behind as regards employee welfare benefits. Now that the enterprise is showing a profit, not only is it able to exploit unused potential, modernize and renovate with its own resources, but it also has been able to provide some collective welfare and deliver some real benefits to the employees.

4. Linking of bonuses to profits and calculation of bonuses in terms of profits. In this method, bonuses are decoupled from wages and linked to profits instead. Employee benefits in the previous year are compared with profits to determine the bonus ratio, which is approved by the relevant department and is in effect for 3 years. The larger the amount paid to the higher levels, the greater the bonuses obtained, and conversely. The advantage of this method is that the employees' economic interests are closely linked to enterprise management results; "when the water rises the boats float higher," and bonuses go up as profits go up, which

assures large revenues for the state. The disadvantage is that setting the bonus-to-profit ratio in terms of last year's actual figures is a somewhat random method; some enterprises' bonus figures may exceed the prescribed amounts.

5. Partial profit retention by entire industries. In this method the bureau or company is taken as the unit and a base figure contracted for; part of any surplus is retained, with the proportion remaining constant for several years. In addition, the bureau or company and its subordinate enterprises each have a base contract figure and a surplus profit retention percentage set for them. The main feature of this method is that the department (or company) can make suitable adjustments in terms of the quality of individual enterprises' management within the industry as a whole, in terms of such factors as the favorable or unfavorable character of objective circumstances, the difficulty of increasing output and profits, and the size of the contribution made to the state. Ningbo City implemented industrywide partial retention of profit increases for all industry and communications bureaus (or companies), while Jinhua City, Sheng County, Jiangshan County and others are also testing the method. Its advantages are: first, it helps solve the problem of "uneven distribution of benefits and disadvantages" among enterprises; second, it helps in the planning and disposition of the various funds and allows rational organization of production; third, it helps promote readjustment, reorganization and integration of industries. Its weak points are that enterprises with high profits complain that their profits are being skimmed off by low-profit enterprises, and that some enterprises think that some of their powers have been taken away by their cognizant departments. As a result, special attention must be paid to correct handling of relations between the cognizant department and the enterprises and to effective political and ideological work.

6. Replacement of payment of profits by payment of taxes, and responsibility for profit and loss. Under this method, when small enterprises change over from payment of profits to payment of taxes, the interests of state, enterprise and employees are more closely linked together, which helps thoroughly mobilize enterprise and employee enthusiasm, promote the expansion of production and increase earnings, which assures the state financial offices of steadily increasing revenues. The principle of basing the types of taxation and the tax rates on the interests of the state, the enterprise and the employees alike, which helps to mobilize the enthusiasm of all concerned, can be applied with due reference to local conditions. For example, some localities now use the "four taxes" (income tax, profit shortfall adjustment tax, vehicle and boat license tax, land use tax), and the "two fees" (fee for use of fixed assets, fee for use of circulating funds), while some localities make reference to the collective-ownership enterprise method and collect an eight-level graduated income tax. Once payment of profits is replaced by payment of taxes, all after-tax profits go to the enterprise, and the enterprise itself determines their use.

In addition, industrial enterprises under collective ownership which are experimenting with expanded autonomy have implemented the partial retention of profit method in accordance with province specifications, with 4 percent of the specified base profit level being retained the enterprise, while 20, 30 or 40 percent of the profit increment is also retained, depending on the size of the profits and the difficulty of realizing them. Starting this year, collectively-owned enterprises throughout the area will institute the system of "double reduction" for profit

increments (collection of half of the income tax that would normally be due, and payment of half of the cooperative fund to the higher levels).

[7 Sep 81 p 2]

[Question] What forms of economic responsibility system govern the relationship between the enterprise and the employees?

[Answer] Currently, six types of economic responsibility system applying to the relationship between the enterprise and the employees are in existence on a province-wide scale.

1. Computation of wages by piece rate. This is a wage form in which compensation is based on the number of pieces or the quantity of work of a specified quality completed by the worker. Its distinguishing feature is that it links worker compensation directly to worker accomplishment: the more he works the more he earns, and conversely. Compared with a time rate, it more correctly reflects the quantity of work performed by the worker, better embodies the principle of distribution according to work, and mobilizes employee enthusiasm.

After they have set up a job responsibility system and a checking system and have seen to it that quota management is operating properly, enterprises which are fulfilling their production tasks and which are suited to the piece rate system may secure higher-level approval to implement it; either the collective or the individual may be taken as the piece-rate unit. Workers coming onto the piece-rate system will not be awarded the regular production bonuses.

Implementation of the piece rate system must be linked to the enterprise's economic results and must be arranged so that it guarantees quality, decreases labor costs and results in bigger increases in output and profit. Given these preconditions, enterprises retaining a portion of profits may pay piece rate wages out of costs; a suitably decreased profit retention percentage will be computed for them. Wages paid on the piece rate system may not be calculated as part of the bonus fund money accruing to the enterprise under the partial retention of profits system; this prevents double payment and waste.

This form is already being spread in some branches, enterprises and trades in the construction, transport, cigarette and textile sectors. As to specific measures, some organizations are using the direct unlimited piece rate system, in which wages are calculated according to a single piece rate with no limitations, a method which is suited to work in which individual output from manual or machine operations can be calculated. Some organizations are using a progressive piece rate system, in which wages are calculated using a graduated piece rate based on the size of the quota achieved by the worker; this is suited to enterprises and types of work in which above-quota production is rather difficult. Other organizations are using the limited piece rate system, in which the increase in wages calculated by the piece rate system is limited to 30 percent of the standard wage. After the Ningbo Cigarette Factory instituted the limited piece rate system in July, cigarette output increased from 890 cartons a day to 1,030 cartons a day with the same equipment and personnel.

2. The above-quota piece rate system. This is a piece rate system in which the individual or a small group such as a shop, shift or section is taken as the unit, and the base wage is paid for fulfilling the quota and a piece rate is paid for above-quota production, so that the more the output exceeds the quota the higher the wage; those who do not meet the quota are penalized 5 to 10 percent. Within the group, distribution is carried out in accordance with the technical difficulty, labor strength, conditions and responsibility for the various types of work. Enterprises which implement this system stop paying regular production bonuses and overtime. This method not only protects the interests of older workers, but also mobilizes new workers' enthusiasm, so that all enterprises with effective leadership groups and a good basis for management work which have full production assignments can implement it on a trial basis. At present, some enterprises in Hangzhou, Ningbo and Shaoxing cities and Yuhang, Sheng and Lishui counties are testing this method.

3. The floating wage system. This system involves making a large proportion of the original wage (generally between 70 and 80 percent) a fixed wage and designating a small part of the original wage plus the bonus (including bonuses obtained from partial retention of profits) or an allowance as the floating wage. For example, after the Ningbo Municipal Moving Company adopted this wage method last December, handling efficiency was increased by 43 percent, and the amount of profits remitted to the higher levels was doubled, while the workers' income was increased by 59.2 percent compared with the fixed wage system.

4. Computation of bonuses according to bonus points. This replaces the evaluation bonus with a points bonus. Various technical and economic indicators such as output, quality, variety, consumption and expenditure are broken down into a number of smaller indicators which are applied at each level down to the shop, shift and individual worker; bonus point values are assigned for each indicator and the points are tallied on a monthly basis. In some cases an economic contract is also signed to specify rights and responsibilities. This method is already in rather widespread use. The 23 silk plants in the Hangzhou City silk system have implemented it. Starting in 1980, the Fuhua Silk Plant in Hangzhou went on to combine the bonus point system with the above-quota piece rate bonus system, awarding bonuses in terms of above-quota piece production and bonus-point totals; the plant's headquarters set standard point values and instituted the following regulations: 25 points were to be awarded to a worker who fulfilled his quota, with 3 additional points to be added for each 1 percent overfulfillment, while those who did not meet their quotas were to have 3 points deducted for each 1 percent shortfall; those who met quality quotas were awarded 45 points, with an additional 10 to 15 points awarded for eliminating second-quality products; those who met conservation indicator targets received 10 points, and an additional 10 points for safe, enlightened production, while those who were responsible for accidents lost their month's bonus. Implementation of this system allowed a rather small bonus sum to have a rather large effect, and last year records were set in all technical and economic indicators. This year, although the size of bonuses has been decreased somewhat, the state plan is being overfulfilled every month.

5. Computation of bonuses according to output. This is a system in which bonuses are paid in terms of output. The Sheng County Cement Plant specified that those who fulfilled the state plan would receive 1 yuan in bonuses per ton. Sections

which overfulfilled the plan by 50 percent received a bonus of 1.5 yuan per ton, and those which overfulfilled the state plan by more than 50 percent received a bonus of 3 yuan per ton. The Sheng County Electromechanical Plant specified that the basic bonus would be paid when the plantwide monthly output value was 300,000 yuan and the sales figure reached 250,000 yuan; the bonus would be increased an average of 1 yuan per worker for each 50,000 yuan overfulfillment of output value and sales quotas.

6. Setting up a "several specifications, one bonus" system for leadership cadres and management personnel. Most front-line workers have hard and fast quotas, and it is relatively easy to calculate a bonus by a point system, but there are no hard and fast quotas for leadership cadres and management personnel, so that it is rather hard to compute bonuses on the basis of a point system. Many enterprises set bonuses for management cadres slightly lower than the average for the production workers. For example, the Jinhua Cotton Cloth Mill has a rather good method. It instituted a "six specifications, one bonus" system for plant-level leadership cadres, involving specified output value, specified profit, specified variety, specified output volume, specified quality and specified consumption. It declared that the leadership cadres had complete responsibility for all of the enterprise's monthly plan indicators, and a proportionality factor for awarding or decreasing bonuses was specified for each indicator. Those who fulfilled their quotas for all six indicators received the full bonus, and those who failed to fulfill three of the indicators had their individual wages cut by 20 percent. A system of "seven specifications, one bonus" was instituted for shop superintendents and shift foremen, consisting of output volume targets, quality targets, consumption targets, safety targets and the like. Those who met all the targets received the full bonus, and if the two main indicators of output volume and quality were overfulfilled, they could receive an additional 10 percent. If the two main indicators of output volume and quality and two secondary indicators were not met, 2 percent was deducted from their wages. The Lanxi County industrial enterprises prescribed that provided the four yearly indicators of output volume, quality, profit and provision of goods in accordance with contracts were met, the plant-level leadership would receive a bonus to be calculated in terms of the percentage by which the enterprise overfulfilled the quota for payment of profits to the higher levels. If the profit quota was not met, 2 to 5 percent would be deducted from the standard individual salary of the main leadership personnel for a period of 3 to 6 months.

[8 Sep 81 p 2]

[Question] To what problems should industrial and communications enterprises implementing economic responsibility systems pay attention, and what principles should they follow?

[Answer] This province is still in the investigation and experimental stage in its implementation of economic responsibility systems in the industrial enterprises, and we can only say that the experience gained thus far is preliminary. The specific methods described above are relatively practicable. But in studying and spreading this experience, we must refer to the specific situations of the individual geographic areas, departments, and enterprises, take a realistic approach, be creative in adopting it, continually investigate new circumstances which arise during practice, solve new problems, and gradually improve the techniques.

At the same time, implementation of the economic responsibility systems must proceed side by side with enterprise reorganization; establishing an economic responsibility system and making it work properly is the point of breakthrough in enterprise reorganization, which can bring the enterprise internal economic impetus, strengthen its basic work, and improve the quality of management and administration.

No matter what type of economic responsibility system an enterprise implements, it must grasp the following points:

1. Simultaneous reference to the interests of state, enterprise and employees. The primary requirement is to assure large revenues to the state; the enterprise must use appropriate measures and appropriate methods to pursue proper economic interests, but it must never violate law and discipline or engage in deception. In the relationship between state and enterprise, the key point is to assure rational base numbers for performance contracts and rational proportional shares; in distribution within the enterprise, the key is to develop norms for average and advanced work and rational unit-values for computing work results. Once large revenues for the state are assured, everything should be done to take account of enterprise and employee interests and to mobilize enterprise and employee enthusiasm. Certain enterprises suffering special hardship may be allowed to keep their profits for a specified period of time so as to allow them greater income and give them time to rest and recuperate and to build up their financial resources.
2. Specific forms and methods should be realistically based, take account of local conditions and use the forms best suited to them, rather than imposing arbitrary uniformity. Nor should they rush headlong into action, and enterprises in which the conditions are right should not force their implementation. In addition, account should be taken of "neighbors," and of relations between all types of personnel.
3. The awarding of a percentage of profits to the enterprise and contracting for profits, and the computation of bonus points or implementation of the piece rate system within the enterprise, must both take full account of variety, output volume, quality, consumption and safety indicators; and such one-sided tendencies as ignoring product quality and production safety or single-minded pursuit of quantity in profit should be opposed, overall fulfillment of the state plan should be guaranteed, and a sense of responsibility toward the consumer should be manifested.
4. Rights and responsibilities should be made clear, and methods should be simple and easy to implement. The various yardsticks must be subjected to free and thorough discussion by the workers, and once they are fixed, they must not be changed lightly, so as to maintain stability and continuity of policy.
5. Vigorous political and ideological work must be done to guarantee the effectiveness of these systems. Establishing economic responsibility systems in industrial enterprises and keeping them in good working order constitutes an important reform of the industrial management system. Accordingly, this work requires a positive orientation, a variety of methods, stable policy, an active and prudent approach, and implementation with leadership and a program; and the relevant departments must provide support so that it progresses in a healthy fashion.

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CSO: 4006/37

## GENERAL

### ECONOMIC RESPONSIBILITY SYSTEM IN FINANCE AND TRADE

Kunming YUNNAN RIBAO in Chinese 21 Sep 81 p 1

[Article: "Push the Economic Responsibility System in Finance and Trade Vigorously and Steadily"]

[Text] All those finance and trade enterprises that practice the economic responsibility system in our province have undergone changes in both the quality of service and the economic results. Practice has proven that taking the economic responsibility system as a breakthrough point to restructure the system of commercial management will benefit the economic readjustment and stimulate the market. All localities should take a positive attitude with regard to the economic responsibility system, strengthen their leadership, and unswervingly attend to the job of instituting the economic responsibility system.

In pushing the economic responsibility system, the finance and trade enterprises should correctly handle not only the relations between the state, enterprises, and workers but also their relations with consumers and producers. This is determined by the characteristics of finance and trade activities. After putting the economic responsibility system into practice, enterprises must take care of the interests of the state, enterprises, and workers. They are not permitted to change the higher degree of public ownership into a lower degree of public ownership or to squeeze state revenues. They must see to it that, under the premise of ensuring fulfillment of the quotas of profit deliveries, enterprises retain more profits and workers get more income. Egalitarianism should be overcome when issuing wage bonuses. The characteristics of commercial enterprises and service trades are to serve the consumers directly. This demands that commercial enterprises and service trades safeguard the interests of the masses and adhere to the direction of their services. It is even more important that state-operated commercial enterprises and service trades, which are the main fronts for safeguarding the daily needs of the people, refrain from the practice of handling only the profitable commodities and not the less profitable commodities or moneylosing commodities. They must hold themselves responsible to the market. Some enterprises practicing the economic responsibility system concentrate on profits and wage bonuses and disregard the orientation of their operation and the quality of their services. All localities should intensively teach finance-trade cadres and workers to promote one policy (developing economy and ensuring supply), two services (service to production and service to people's livelihood), and three viewpoints (political viewpoint, production viewpoint,

and mass viewpoint). At the same time, the education should be supplemented with economic means and administrative measures to guide the enterprises in their proper direction of operation to the satisfaction of the state, enterprises, workers, and consumers. In putting the economic responsibility system into practice, the commercial purchase departments, which have close connections with the producers, should take the promotion of production as an important feature of proficiency assessment.

The finance and trade departments are economic departments organizing the circulation of commodities and the circulation of money. In their activities, innumerable trades, complicated categories, wide areas, and different situations are involved. For this reason, the system of economic responsibility should be instituted in light of different conditions and in a manner suited to local conditions of each store, rather than insisting on "arbitrary uniformity." For example, a distinction should be drawn between town and country, between plains areas and mountain areas, between wholesale and retail, between large stores and small ones, between commercial enterprises and service trades. At the same time, action should not be precipitate. We may make some experiments, acquire experience, and popularize it step by step. Those enterprises that have instituted the system should keep summing up their experiences and perfecting the system. Those that have not instituted the system and are in a position to do so should institute the system quickly. Those enterprises marked by confused management, weak leading groups, and numerous problems should be reorganized and, on that basis, the system should be instituted. In this way, there will be better prospects for thriving growth of finance and trade in our province.

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## GENERAL

### REASONABLE CONTRACT QUOTAS URGED

Jinan DAZHONG RIBAO in Chinese 24 Sep 81 p 1

[Article by staff reporter Wang Juntian [3769 6874 3944]: "The Assigned Quota Should be Reasonable"]

[Text] The industry, communications, finance, and trade enterprises in the Jinan municipality have popularized various forms of economic responsibility and have achieved marked economic results; but there have arisen some problems that merit attention. One problem is that the quotas of profits assigned to some enterprises and units are too low and the profits are shared irrationally between the state and enterprises, with the result that the share going to the state is decreased and the income earned by individuals is excessive, and that, among enterprises of the same type and in the same trade, some gain from the system but others lose. Take one restaurant for example. With a long record of losses, this restaurant lost more than 3,000 yuan for the first 7 months last year. Beginning the fourth quarter of last year, the responsible department decided to put the restaurant under the system of contract profits and sharing above-quota profits with the state. Taking account of the average amount of profits delivered to the state over the past 3 years, that is, 370 yuan, at first the department set the quota of profit delivery at 400 yuan. When a contract was signed this year, the quota was set at 800 yuan. But the two quotas did not take into account the advanced level of the same trade in the municipality nor the record level of profit delivered by the restaurant in November 1976, that is, 3,400 yuan. As a result of executing the contract, the restaurant made 27,700 yuan profits from January to August, averaging 3,550 yuan a month, 4.4 times the amount of quota assigned. In August this year, wage bonuses averaging 49.60 yuan per capita were paid to its workers and the amount of profits delivered to the state averaged only 16 yuan per capita. The Huimin Restaurant on Weisanlu, which operated under basically the same conditions, put into practice the system of retaining a portion of profits as wages to its workers. From January to August, the restaurant earned 27,700 yuan in profits and in August delivered to the state profits averaging 37 yuan per capita and paid wage bonuses averaging 15.30 yuan per capita. Thus, the contribution made by each of the Huimin Restaurant workers was 1.3 times greater than that contributed by each of the other restaurant workers, while the income made by each Huimin Restaurant worker was equivalent to only 30 percent of that made by each of the other restaurant workers.

The above situation indicates that the implementation of the profit-contract economic responsibility system has played a significant role in reversing the protracted loss of money in the case of some units. But the losses made by some units are operational ones and abnormal because their profit potential is great. Therefore, if a change from loss to profit is the only consideration in assigning contracts, a situation like the case mentioned above is bound to arise. To make such an approach will have an adverse effect on state revenues and dampen the enthusiasm of other enterprises in the same trade.

Since industry, communications, finance, and trade enterprises differ in thousands of ways, introduction of the economic responsibility system must proceed from reality, concrete circumstances, and concrete analysis; and each case must be dealt with on its merits. A problem currently calling for study and solution is how to determine, for units implementing the profit-contract system, a reasonable contract quota in such a way that it will ensure bringing the two kinds of enthusiasm into play, take good care of the interests of three sides, and ensure more revenues for the state, more retained profits for enterprises, and more income for individuals while encouraging the advanced and spurring the backward on. This problem should be given attention by all sides concerned. How are we to work out a reasonable quota to be assigned? I had talks with some comrades whose consensus is: (1) Quotas should be drawn up only after investigation and study and with consideration given to the business conditions of the units concerned, including the actual results of their operation for the previous year; the average figures and progressive growth rates for the past 3 years; their past record levels; and, also, with consideration to the state standards as well as the average advanced levels of the same trade, same type, and same class. Only thus can advanced and reasonable quotas be set, making it possible for enterprises and most of the workers to overfulfill the quota through exertion of efforts. (2) Production and operation are complicated and variable in some enterprises. In such cases, the base contract figures should be concretely figured out and determined separately for different trades and different enterprises in light of current market conditions and objective factors. It should be permissible to make the necessary adjustment through practice. Nothing should be made unalterable. (3) With regard to enterprises and units that lose money, the causes of the losses should be concretely analyzed and corresponding measures should be taken to deal with them rather than just assigning a contract and having done with it. At the early stage, it is difficult to figure out the quota accurately; and, inevitably, some quotas are set too low. The duration of contracts should be a little shorter so that adjustment can be promptly made. Money-losing enterprises should be reorganized promptly and the causes of their losses should be traced and guarded against by taking the necessary measures. In the case of such enterprises, the profit-contract system should be restored only after their normal production and operation have been restored.

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## GENERAL

### 'JINGJI GUANLI' DISCUSSES COMMERCIAL NETWORK

HK190805 Beijing JINGJI GUANLI [ECONOMIC MANAGEMENT] in Chinese No 9, 15 Sep 81  
pp 47-48, 55

[Article by Ji Jianxin [4764 1696 2450]: "How Did Jiangsu Province Develop its Commercial Network?"]

[Text] (1) The Present Situation of the Commercial Network

There were 226,000 commercial, catering and service points (hereafter referred to as commercial network) in Jiangsu Province in 1957, with an average of 5.4 points for every 1,000 people and such a situation was basically in line with the need to develop the national economy and people's life. People were happy to enjoy convenience in their life and to see brisk markets. But under the influence of various thinking such as "constantly reforming the relations of production," "changing consumer cities to producer cities" and "production first and then people's life," a great number of commercial points were abolished or merged while the shops run by couples, small retailers and mobile pedlars that represented the individual economy were sliced down after 1958. The commercial network further declined during the 10 turbulent years. Compared with 1957, the population increased by 39.4 percent in 1978 and the volume of retail sales of social commodities increased by 257.1 percent; but the commercial network decreased by 67.7 percent, with a decrease of 76 percent per 1,000 people on average. In 1978, the average space for the commercial network in cities was only 400 square meters per 1,000 people, about 50 percent less than the normal space of 700 square meters. Consequently, the broad masses of people found it difficult to solve daily necessities such as eating, living, bathing, having their hair cut, buying vegetables, repairing shoes and making clothes.

In 1978, the provincial authorities decided to improve the situation of the commercial network. With the party secretaries at various levels taking command, the masses were organized for this purpose. But because of wrong policies, just over 1,000 commercial points were set up after 1 year of the work that was carried out in a big way. Taixing Prefecture that planned to set up 29 commercial points only set up 1 point.

Under the inspiration of the 3d plenary session of the 11th party Central Committee in 1980 and following the implementation of the directives of the party Central Committee that in developing a commercial network it is necessary to engage in a

more diversified economy, adopt more management forms and more circulation channels and to lessen links (abbreviated as "three mores and one less"), the commercial network has developed rapidly. During the year alone, 47,000 commercial points were set up. The departments concerned of the province are now considering working out a plan for the development of the commercial network in a bid to restore the commercial network to the level of 1957 in 5 years so that it will accord with the needs of people's life in the interests of both production and people's livelihood and to help open up a road for more employment. According to initial calculation, once the commercial network is restored to the 1957 level, it will be able to provide an additional 200,000 to 300,000 jobs and increase the amount of currency withdrawn from circulation by 1 to 2 billion yuan.

## (II) Encourage Through Policies the Initiative of Various Aspects in Developing Commercial Network

How to develop the commercial network? To depend on state investments or party policies? Comrades from Jiangsu Province said that it will not work to totally depend on state investments and that the commercial network will be able to develop rapidly only by relying on party policies and principles. Jiangsu Province mainly implemented the following policies.

1. Conscientiously implement the principle of "three mores and one less" and adopt various forms to develop the commercial network.

First, encourage individual households to undertake various trades such as small snack bars, small service points, small repair points and small groceries so as to enable the network of small retailers to spread even wider as a supplement to state commerce. Such retail points are flexible and they are in a position to go deep among the grassroots and the masses for the convenience of their life. Over the past year and more, Wuxi city has set up 150 eating houses. This figure is equivalent to the figure for the eating houses run by the state and the collective. With rational location, these eating houses are able to solve the problem of eating fairly well.

Second, continue to develop collective commerce so as to assist state commerce. This method does not require state investments, nor does it require more people with commodity grain or increase the state labor quotas; but it is in the interest of arranging more employment. The Qionghua neighborhood committee of Yangzhou city has set up 18 small eating houses, small grocers and small repair points without spending a single cent from the state. These undertakings convenience the masses and provide employment for a number of people.

Third, set up shops by making use of the existing premises of industrial and mining enterprises, organizations, army units and schools. In 1980, 668 shops of this kind were set up throughout the province.

Fourth, restore and develop city agricultural trading markets. Since the 3d plenary session of the 11th party Central Committee, the province has restored and developed 245 such markets. The trading volume of vegetables, meat, eggs, poultry and marine products and these markets in 1980 equalled 16 to 36 percent of the trading volume

of similar commodities in state markets which made up for the shortages in state markets. At the same time, the emergence of competitors has helped the state enterprises to improve their management.

2. Implement the responsibility system in the existing state-owned shops. The previous method of "eating out of a big pot" characterized by fixed wages and awards was not in the interest of mobilizing the initiative of staff and workers and consequently many shops did not play their due roles. In 1980, the shops in Nanjing city with bad service quality and bad management experimented with the wage form of "assigning responsibility for fixed quotas with retention for overfulfillment." With this form, the units concerned signed contracts with shops to implement "five fixed quotas for shops" (fixed sales volume, fixed gross earning, fixed expenses, fixed profits and fixed proportion of retention from the profits gained from the overfulfillment of the quotas). Thus the method of fixed wages and awards was changed to basic wages plus profit retention for overfulfillment of quotas. Investigations of typical units showed that with this method, all working efficiency, sales volume, gross earnings and tax increased by over 200 percent. For example, the Shengji cigarette and wine cooperative shop in Gulou, Nanjing, had bad management. It refused to sell even the commodities that were in good demand. Its service was bad and when customers came to buy something, the answer was "out of stock" even if it had the goods. As a result, many commodities turned moldy and the shop lost every year. Now great changes have taken place since the shop introduced the responsibility system. Its varieties of commodities have increased from 60 or 70 to more than 100. The staff now treat their customers warmly while their service hours have been prolonged from 7 in the morning till 11 at night. In the first month following the introduction of the responsibility system, the shop turned losses to profits and overfulfilled the sales quotas, gross earnings quotas and tax quotas in each of the following 6 months.

3. Prohibit arbitrary dismantling or occupation of commercial points. Under the influence of the "leftist" thinking in the past, some departments and units arbitrarily dismantled and occupied commercial points at will. The provincial departments concerned consequently defined that no unit is permitted to dismantle or occupy commercial points arbitrarily. If such points are to be dismantled because of municipal construction, it can only be done after the same number of alternative premises are built by those who are doing the dismantling. The points that were occupied earlier for other purposes must in principle be taken back or be exchanged for other premises. Roadside premises that have been occupied must be returned soon so that the shops will be able to operate again.

4. The management of investment in capital construction must accord with the features of the scattered and small-scale commercial network. Basing themselves on the sources of the commercial profit retention, losses and depreciation funds, the provincial departments concerned allotted 4.52 million yuan for the capital construction of the commercial network in 1980 to set up 70,000 square meters of commercial network and solve some urgent problems. But in 1981, there was no investment in this aspect and consequently some urgent problems have yet to be resolved. The provincial commercial departments pointed out that the commercial network is an apparatus directly serving the livelihood of the masses and it includes many commercial points that are spreading widely and each of these points only requires several hundred thousand yuan of investment with a construction space ranging from

several hundred to 1,000 square meters. Such commercial points basically do not consume state energy, nor do they vie for raw materials. Therefore, commercial departments must be allowed to build part of the commercial points with the funds raised by themselves on the premise that such a measure will not affect the state finance. With regard to the management of such investments, consideration should be given to using the expenses for such undertakings together with the construction funds with whole responsibility according to the method of using the funds for constructing simple commercial buildings.

5. The commercial points in the newly built industrial and mining areas and housing areas must be coupled with related infrastructural construction. In the past, the building units only paid attention to the main projects and neglected construction of the related infrastructure such as municipal installations and commercial points. Consequently, many houses could not be commissioned after completion. Such a situation has been improved a little over the past 2 years.

The practice of Jiangsu Province has proved that in developing a commercial network it is imperative to rely on party policies. But it is also necessary to have a certain source of funds for carrying out some capital construction to add more commercial points. It is unlikely at present that we will be able to rely on state investments and we must mainly rely on our own efforts in gradually solving this problem by making use of commercial profit retention and the finance of various levels in the localities. Local finance in particular must undertake fewer "bones" and more "meat." In this way, after 3 to 5 years of hard work it will not be difficult to restore the commercial network to the 1957 level.

### (III) Some Problems in Developing Commercial Network

Comrades from Jiangsu Province say that there still exist three problems for them in developing the commercial network.

1. Some comrades still do not dare to implement the principle of "three mores and one less" and particularly in developing individual small retailers. They have "four fears and three worries." That is to say, they fear that they will develop capitalism, carry a burden, squeeze the business of others and affect the urban environment and they worry that their source of goods, license and places for business will be blocked. For example, several months ago, there were 500 pedlars from the countryside who sold dumpling soup in Nanjing city and they were welcomed by the masses. But before long they were driven out on the grounds that they had no license and they were discarding agricultural production. Quite a number of the more than 40,000 commercial points that were developed in 1980 were given no license by the departments concerned. Some comrades who are doing business individually, "eating out through selling the commodities that are in short supply," selling popular goods of dependable quality and who are accustomed to simple service, are not active in supporting the businesses run by many or individual households and such an attitude is not in the interests of developing the commercial network.

2. The commercial departments are now leasing 70 percent of the business premises of the housing department. These houses were left over from preliberation days and they are all very simple and old. For a long period the housing department only collected rent but did not repair the buildings, and with more dangerous

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buildings increasing year by year, the use of these buildings has been affected. Comrades from the provincial commercial bureau suggested that during the readjustment period these buildings be handed over to the commercial departments so that these buildings can be repaired to ease the stringent situation of commercial buildings.

3. The funds for tapping potential, renovating and restructuring are only used in production construction while only little consideration is given to meeting the needs in making up for complete "meat" such as commercial points, cultural, educational and health installations and municipal installations. If this situation continues, a new imbalance will occur in the proportion between the "bones" and the "meat."

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## GENERAL

### DEVELOPMENT OF COMMERCIAL SERVICES SAID NECESSARY

Kunming YUNNAN RIBAO in Chinese 19 Sep 81 p 3

[Article by Shu Qun [2885 5028]: "Development of Commercial Services Is the Inexorable Trend of Economic Development"]

[Text] Commercial services are a link indispensable to the total process of social production, playing an important functional role in organizing circulation, joining production and consumption, linking up industry and agriculture, promoting production development, and serving people's livelihood and directly bearing on the ultimate realization of the aim of socialist production.

As we know, the process of social reproduction is unity of the production process and the circulation process. Production and circulation depend on each other, interlace on each other, and condition each other; and neither should be overemphasized at the expense of the other. Production is the decisive link and, without production, circulation will lose its material base; but, without circulation, production and consumption of products cannot be realized and, no matter how many products are turned out, they can only lie in the warehouse and cannot pass from the hand of the producer to the hand of the consumer, in which case the potential use-value of products cannot be translated into use-value and it is similarly impossible to satisfy the needs of the people. Only through the bridge of circulation can production and consumption be linked up and the aim of production be ultimately achieved. Therefore, circulation must be suited to production and commercial services must be corresponding developed. Along with the progress of science and technology, the growth of industrial and agricultural productivity, the rise in people's living standard and the change in consumer structure, commercial services will be ever expanded in scope and commercial employees will ever increase in number: such is the inexorable trend of modern economic development.

Development of commercial services is an important feature of the economic readjustment and is a long-term plan for promoting production, bringing about a prosperous economy, benefiting the nation and serving the interests of the people. Over the years, influenced by the "leftist" ideology, people have had certain prejudices against commercial labor and have gone so far as to equate commodity exchange with capitalism. In economic construction, they often laid stress on production to the neglect of consumption, on production to the neglect of circulation, on production to the neglect of services, and on industry to the neglect

of commerce with the result that development of commercial services has fallen behind the development of production and the needs of people's livelihood. Population has increased, the housing area has expanded, and people's purchasing power and commodity circulation have increased fast but commercial networks have decreased. In the Kunming municipality, for example, commercial networks have decreased 50 percent in 1978 compared with 1956, causing great inconveniences to people's livelihood. Since the Third Plenum of the Party, the party and government who care for the living condition of the people have made great efforts and commercial services have been significantly restored and developed, and shortage of commercial services has eased. But, for multiple reasons, the development of commercial services is still a long way from the production and livelihood requirements of urban and rural people; and some trades have not been restored to their record levels of the past and such problems as finding it difficult to have a dress made, to get meals in a restaurant, to have things repaired, and to get bus service have not been completely solved. Further, it should be pointed out that, with the implementation of the line and policies laid down at the Third Plenum, the national economy has embarked upon the correct road to sound growth; agriculture and light industry have markedly developed; consumer goods have increased in large quantities; the variety of colors and designs is increasing day-by-day; farm produce and by-products are continuously flowing into the market; and, along with these developments, people's economic income and purchasing power have increased. These circumstances set new and higher demands on commercial services. When commodities increase in variety and quantity, it is necessary to expand the networks to increase sales. When cloth and silk products are abundant, it is necessary to increase dressmaking correspondingly. When meat, fish, poultry, and eggs are abundant, it is necessary to strengthen the catering services to make delicious food for the people. When the urban and rural people have bought more bicycles, watches, sewing machines, and TV sets, the repair trades should correspondingly increase. Therefore, along with the development of the national economy, commerce must keep pace, the circulation channels should be kept more open, and services should be further augmented and perfected so as to give a greater impetus to production, withdraw money from circulation, stimulate the economy, make the market prosper, and meet the living requirements of urban and rural people.

Developing commercial services also is an important avenue for the placement of youths waiting for employment and for solving the problems of unemployment. Labor employment is a pressing problem in the economic development of our country. Because of the limitations of state financial resources and the adjustment of the economic structure, it is not possible to solve the problem of unemployment within a short period of time by building new plants. By developing commercial services, arrangements can be made for the placement of large numbers of unemployed persons in cities. Most of the commercial services fall into the category of labor-intensive trades characterized by less investment, quicker results, greater returns, and a capacity for accommodating more manpower. According to surveys, the manpower accommodated by each 100 yuan in fixed assets in the industrial sector is less than one able-bodied worker in the case of heavy industry and only two-and-one-half able-bodied workers in the case of light industry. But, for the placement of one able-bodied worker, the amount of investment required is about some 800 yuan in the case of the state-operated catering trade, some 600 yuan in the case of the clothing trade, and only some 100 yuan

in the case of a barber shop. In a situation in which our country lacks construction funds but has surplus manpower, the development of commercial services and diverse kinds of public service businesses will open a broad avenue for employment. Again, take the Kunming municipality for example. According to the requirement of commercial employees who account for only 3 percent of the national average, the municipality can create an additional 20,000 jobs. Thus, commercial services still have great employment potential.

To be sure, the development of commercial services should proceed from the reality of various localities, from the needs of the masses, and on the basis of proper arrangement and deployment. For the present, it is particularly advisable to develop small-scale collective commercial services and individual commercial service trades so that a diversified economy, in which different sectors exist side-by-side, with the state and collective economy as the mainbody and the individual economy as the subsidiary, and a unified socialist market with diversified modes of operation and diversified channels of circulation will form a commercial service structure which has multiple levels and whose network and centers are more properly and flexibly distributed and more suited to the needs of the masses, a commercial service structure which will play a still greater part in the four modernizations.

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CSO: 4006/43

## GENERAL

### WORKER REPRESENTATIVE SYSTEM AT SHAANXI PLANT DESCRIBED

Xian SHAANXI RIBAO in Chinese 27 Aug 81 p 1

[Article by reporter Shen Yunjun [3088 0061 7486]: "The Key To Handling Democratic Management of Enterprises well Is the Party Committee--Investigation of the Implementation of the Worker Representatives Conference at the Shaanxi Textile Equipment Plant"]

[Text] The party committee of the Shaanxi textile equipment plant handed over the big task of business administration to the worker representatives conference for discussion and decisions, actively mobilized the enthusiasm of the broad number of workers for being masters, and thus improved and strengthened party leadership. From 1978 to 1980, overall the plant overfulfilled the state production tasks for 3 consecutive years. During the first 7 months of this year, it completed 81.11 percent of the total production value for the whole year and realized 113.08 percent of the planned profits for the entire year.

When this plant began to reinstitute the worker representatives conference in 1978, some leading members of the party committee feared that developing democracy would result in misuse; they feared too many opinions would make it difficult to reach final decisions; and they said: "Our plant is a one with serious problems, there are many debts, holding worker representatives meetings will intensify the conflict between the leaders and the workers." To unify understanding, the party committee immediately organized a "group" to study the directives of the party Central Committee concerning democratic management of enterprises, reviewed the facts during the first half of 1977 when the plant humbly listened to the opinions of the masses, mobilized the masses to engage in a hundred days of labor competition, and quickly changed the chaotic situation at the plant and turned losses around so that everyone recognized that the workers of a socialist enterprise are the masters of the nation, the worker representatives conference is the fundamental form for the implementation of democratic management. It provides organizational assurance for developing the workers' sense of responsibility as the master and the enthusiasm to be the master; it not only will not intensify the conflict between the leaders and the workers, it will strengthen and improve the party's leadership and promote the development of the enterprise. At the beginning of 1978, the percentage of qualified products of seven types of production of the plant was very low; half of the products were not up to standard. Through the holding of the worker representatives conference, the representatives conscientiously analyzed the favorable conditions and the unfavorable factors in production at the plant, proposed 229 measures, and adopted corresponding decisions. After the conference, the plant

leadership and the workers of the whole plant conscientiously implemented the conference resolutions and concentrated on the weak links involved in improving product quality, and by September the quality of all products was up to standard.

#### Let the Worker Representatives Conference Have Authority and Duty

After establishing the worker representatives conference in the plant, the party committee gave it full authority:

1. to discuss and decide on the reform of business management of the enterprise and establish rules and regulations and systems; 2 to discuss and decide on plans for the development of the enterprise, annual plans, and plans for digging for potential, reformation and improvement; 3 to review the financial budget of the whole plant, the final accounts, and the utilization of capital at the enterprise; 4 to resolve the major questions concerning collective welfare enterprises for the workers and concerning the individual benefits of the workers; 5 to supervise and evaluate the work of the leading cadres at each level.

The party committee of this plant not only handed the authority over to the worker representatives conference; it also respected the resolutions and measures decided on by the worker representatives conference in exercising its authority. It assured implementation of the resolutions of the worker representatives conference as the practical activity to organize and support democratic management at each level. For 3 years, the group organized by the party committee and the leading cadres at each level carried out the work and led in the implementation of the resolutions. In May of last year, the plant held its second worker representatives conference. The representatives inspected waste, dug for potential, calculated the detailed accounts, and resolved to realize a profit of 1.5 million yuan for the whole year. Although in September there was a shortage in the supply of raw materials, the plant manager personally went to the mountain regions to secure materials so that the resolution of the worker representatives conference did not become empty talk. Last year, the whole year's profits reached 1.53 million yuan. After each worker representatives conference of the plant, each branch of the party conscientiously transmitted the spirit of the conference and propagandized the resolutions, mobilized the masses to establish plans and measures to realize the resolutions so that everyone cared about and conscientiously implemented the resolutions. The party directly examined the execution of the conference resolutions and also tasked the union organization and the worker representatives conference representative with carrying out inspections. Before inspection, they first determined the key points of inspection according to the content of the resolution, then they reported the inspection results to the party committee or wrote a synopsis and posted it throughout the plant.

#### Party Leadership Is Strengthened and Improved

After this plant established the worker representatives conference system, the party leadership was not weakened but was improved and strengthened. First, the party committee's main efforts could be devoted to grasping the major political guidelines and ideological and political work of the party. Previously, the party committee had to decide on everything at the plant. Since the worker representatives conference system was instituted, there has been a change: the party committee has been able to arrange, inspect and establish systems for ideological and political work. When combining and popularizing the responsibility system of linking output

with remuneration, the party committee profoundly launched the campaign for the "five stresses" and "four points of beauty," forcefully promoting the development of production. Second, the conference system brought the relationship between the party and the masses close. This plant's production scale was large, the number of workers increased, they were hard pressed, and so the masses complained. After instituting the worker representatives conference, before each conference, the delegates widely sought the opinions and demand of the workers; the conference decided which were urgent matters and which were not, and according to the plant's financial ability, the tasks that the plant wanted accomplished were written into resolutions and then the concerned departments completed the tasks within a definite period. Tasks that were not completed because the conditions were unsuitable were explained to the workers so that everyone was satisfied, and the relationship between the party and the masses became closer. Third, the conference system benefited the implementation of the party's guidelines and policies. For example, the workers requested that last year's surplus rewards be distributed. This obviously did not coincide with the state regulations. At the third session of the second worker representatives conference, the plant leaders explained to the representatives the policy and the reason for preallocation of a portion of the reward money. The conference discussed the matter and decided to preallocate the reward money. The workers knew about the decision of the worker representatives conference and did not have any further complaints. Fourth, the conference system promoted a change in the way of thinking of the teams of cadres. Since the institution of the worker representatives conference, the improper methods of handling personnel shifts, recruitment of workers and housing appropriations, and similar behind-the-scenes activities have been eliminated. Some cadres said: we are not afraid that the worker representatives represent us, we are afraid that they use facts to carry out inquiries.

This plant has achieved welcome results in implementing the worker representatives conference system. But the representatives consider that is not perfect enough, and at present they are summarizing and improving the experience according to "the temporary regulations concerning the worker representatives conference of state-run industries and enterprises."

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CSO: 4006/511

HEBEI TO BUILD PORT EAST OF CANGZHOU

HK061200 Hong Kong TA KUNG PAO in Chinese 6 Nov 81 p 1

[Dispatch from correspondent Huang Ke-fu [7806 0344 1133] from Guangzhou: "Hebei Decides to Draw in \$100 Million in Foreign Investment to Build a Port East of Cangzhou"]

[Text] In an interview with our correspondent today, Li Erzhong, governor of Hebei Province, said, "Hebei Province is rich in natural resources. It has convenient land and water communication systems and good port facilities. Foreign merchants, overseas Chinese, and industrialists from Hong Kong and Macao are welcome to invest, or to develop compensation trade and processing and assembling of imported materials. We are now drawing up plans for the construction of a port east of Cangzhou. We plan to draw in \$100 million in foreign funds for the cost of the construction and are prepared to export 3 million tons of raw coal to pay for the loan. Hebei Province is very rich in coal as well as in molybdenum and other rare metals.

"Hebei Province has a good industrial foundation. There is considerable potential for the processing and assembling of industrial machinery, and an abundant supply of scientific and technical forces and work forces. Industrialists from overseas are welcome to Hebei Province for tours, visits, investments, setting up factories, opening up mines or engaging in partnerships. We will give preferential treatment."

When talking of his visit to the special economic area of Shenzhen, he said Shenzhen had a lot of experience which Hebei Province could use as a reference in developing its economy. He said: "For example, Hebei Province could follow the example of the tourist and holiday center in both big Meisha and small Meisha. Qinghuangdao and Beidaihe in Hebei are excellent resorts. Hebei Province also has a lot of scenic spots and historical sites admired by tourists at home and abroad. For example, people look forward to the summer mountain villa of Chengde. Hebei Province will strive to repair and protect historical relics and sites, build scenic spots and develop the tourist trade."

Governor Li Erzhong arrived in Guangdong last week at the head of a Hebei provincial delegation consisting of responsible members of the departments concerned. They visited the special economic area to see its construction and to learn from its experience. After a 2-day visit to Shengzhen, they returned to the north by plane this afternoon. Just before leaving Guangzhou, Governor Li Erzhong met with our correspondent in the guest house.

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